



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

March 31, 2011

Contact: Andy Nielsen
515/281-5834

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

The County had local tax revenue of \$40,156,278 for the year ended June 30, 2010, which included \$1,606,169 in tax credits from the state. The County forwarded \$30,174,820 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$9,981,458 of the local tax revenue to finance County operations, a 3 percent increase over the prior year. Other revenues included charges for service of \$2,692,469, operating grants, contributions and restricted interest of \$7,503,185, capital grants, contributions and restricted interest of \$164,880, local option sales tax of \$1,586,040, unrestricted investment earnings of \$163,360 and other general revenues of \$408,981.

Expenses for County operations totaled \$22,543,364, a less than one percent decrease from the prior year. Expenses included \$5,477,997 for roads and transportation, \$4,379,535 for mental health, \$3,807,022 for public safety and legal services and \$3,800,829 for physical health and social services.

A copy of the audit report is available for review in the County Auditor's office, in the Office of Auditor of State and on the Auditor of State's web site at: <http://auditor.iowa.gov/reports/1010-0056-B00F.pdf>.

###

LEE COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14-15
Statement of Activities	B	17
Governmental Fund Financial Statements:		
Balance Sheet	C	18-19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	24
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	25
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	26
Statement of Cash Flows	I	27
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Assets and Liabilities – Agency Funds	J	28
Notes to Financial Statements		29-47
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds		50-51
Budget to GAAP Reconciliation		52
Notes to Required Supplementary Information – Budgetary Reporting		53
Schedule of Funding Progress for the Retiree Health Plan		54
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	56-57
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	58-59
Internal Service Funds:		
Combining Schedule of Net Assets	3	60
Combining Schedule of Revenues, Expenditures and Changes in Fund Net Assets	4	61
Combining Schedule of Cash Flows	5	63
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	6	64-65
Combining Schedule of Changes in Fiduciary Assets and Liabilities	7	66-67
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	8	68-69
Schedule of Expenditures of Federal Awards	9	70-71
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 <u>Government Auditing Standards</u>		73-74
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		77-78
Schedule of Findings and Questioned Costs		79-87
Staff		88

Lee County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rick Larkin	Board of Supervisors	Jan 2011
Ernest Schiller	Board of Supervisors	Jan 2011
Janet Fife-LaFrenz	Board of Supervisors	Jan 2013
Gary Folluo	Board of Supervisors	Jan 2013
Larry Kruse	Board of Supervisors	Jan 2013
Anne M. Pedersen	County Auditor	Jan 2013
Janet Strunk	County Treasurer	Jan 2011
Larry J. Holtkamp	County Recorder	(Retired)
Nancy Booten (Appointed)	County Recorder	Nov 2010
H.D. Buck Jones	County Sheriff	(Retired)
Jim Sholl (Appointed)	County Sheriff	Nov 2012
Michael P. Short	County Attorney	Jan 2011
Teresa Murray	County Assessor	Jan 2016

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Officials of Lee County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lee County, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Lee County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lincoln Ridge Limited Partnership, a blended component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended component unit, is based solely on the report of the other auditors.

Except as discussed in the following paragraph, 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. The financial statements of the Lincoln Ridge Limited Partnership were not audited in accordance with Government Auditing Standards. 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 and the report of the other auditors provide a reasonable basis for our opinions.

The financial statements of Lee County EMS Ambulance, Inc., the County's only discretely presented component unit, have not been audited, and we were not engaged to audit the financial statements of Lee County EMS Ambulance, Inc. as part of our audit of the County's basic financial statements. As described in Note 14, the County has chosen to present condensed financial information for Lee County EMS Ambulance, Inc. Because Lee County EMS Ambulance, Inc.'s financial statements have not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the condensed financial information of the discretely presented component unit of the County as of and for the year ended December 31, 2009.

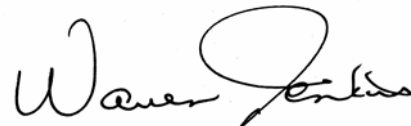
In addition, in our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lee County at June 30, 2010, 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 March 14, 2011 on our consideration of Lee 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, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 12 and 50 through 54 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 Lee 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 nine years ended June 30, 2009 (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

March 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lee County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the County is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at June 30, 2010 by approximately \$38.7 million.
- Lee County's net assets decreased approximately \$43,000 from fiscal year 2009 (FY09) to fiscal year 2010 (FY10).
- Governmental fund revenues in FY10 decreased 1.3%, or approximately \$289,000, from FY09. Property and other county tax increased approximately \$269,000 in FY10 over FY09. The overall tax levy rate decreased \$.02124, from \$10.86023 to \$10.83899, per \$1,000 of taxable valuation. The countywide and the rural services taxable property valuations increased approximately \$36.8 million and \$17.4 million, respectively.
- Governmental fund expenditures decreased 6.9%, or approximately \$1,742,000, from FY09 to FY10. The decrease in expenditures is due primarily to less expenditures for the jail project during FY10.
- The County is in the ninth year of implementation of the Lee County Economic Development Plan. The goal of this plan is to bring much needed jobs to the County, thus employing our citizens and increasing the County's tax base. The Lee County Board of Supervisors, other than budgetary, allows this department to function with considerable autonomy.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's fiscal activities.
- Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lee County as a whole and present 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 Lee County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lee County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Other Supplementary Information provides detailed information about the nonmajor governmental and the individual Internal Service and Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the County.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The Statement of Net Assets includes 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 change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

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

Fund Financial Statements

The County has three kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds include the 1) General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

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

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

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for the County Assessor's office, E911 and emergency management services, to name a few.

The County is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The County excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Lee County's combined net assets were virtually unchanged from a year ago, remaining at approximately at 38.7 million. The analysis that follows focuses on the changes in the net assets of governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2010	2009
Current and other assets	\$ 23,092	23,799
Capital assets	37,693	36,732
Total assets	60,785	60,531
Long-term liabilities	10,012	9,917
Other liabilities	12,051	11,849
Total liabilities	22,063	21,766
Net assets:		
Invested in capital assets, net of related debt	32,340	32,975
Restricted	5,845	4,644
Unrestricted	537	1,146
Total net assets	\$ 38,722	38,765

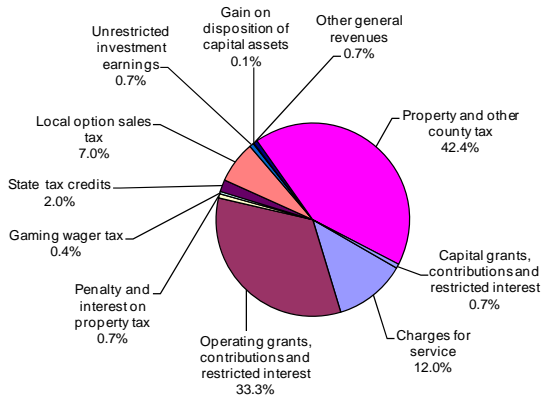
Lee County's total net assets decreased approximately \$43,000, or .1%. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. Debt related to capital assets is liquidated with resources other than capital assets. Comparatively, FY09 total net assets increased approximately \$1,941,000, or 5.3%, from FY08.

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, decreased from approximately \$1,146,000 at June 30, 2009 to approximately \$537,000 at the end of this year, a decrease of 53%, primarily due to the issuance of general obligation emergency services bonds for emergency services communication equipment.

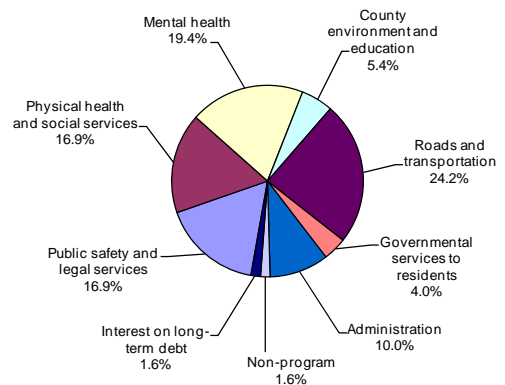
Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2010	2009
Revenues:		
Program revenues:		
Charges for service	\$ 2,692	2,748
Operating grants, contributions and restricted interest	7,503	7,803
Capital grants, contributions and restricted interest	165	2,020
General revenues:		
Property and other county tax	9,525	9,244
Penalty and interest on property tax	151	162
Gaming wager tax	79	85
State tax credits	457	447
Local option sales tax	1,586	1,444
Unrestricted investment earnings	163	379
Gain on disposition of capital assets	14	67
Other general revenues	165	214
Total revenues	22,500	24,613
Program expenses:		
Public safety and legal services	3,807	3,609
Physical health and social services	3,801	3,869
Mental health	4,380	4,626
County environment and education	1,224	1,343
Roads and transportation	5,478	5,233
Governmental services to residents	901	961
Administration	2,247	2,160
Non-program	351	512
Interest on long-term debt	354	359
Total expenses	22,543	22,672
Increase (decrease) in net assets	(43)	1,941
Net assets beginning of year	38,765	36,824
Net assets end of year	\$ 38,722	38,765

Revenue by Source



Expenses by Program



For FY10, Lee County's property tax rates decreased to \$9.22299 per \$1,000 of taxable valuation in the countywide levy and increased to \$1.61600 per \$1,000 of taxable valuation for the rural levy. The countywide taxable property valuation increased \$36,758,000 and the rural taxable property valuation increased \$17,435,000. The net effect of the increases in valuations and the increase/decrease in tax rates was a net increase in property and other county tax revenue of approximately \$269,000.

Capital grants, contributions, and restricted interest decreased approximately \$1,855,000, primarily due to minimal capital assets being contributed by the Iowa Department of Transportation in FY10.

INDIVIDUAL MAJOR FUND ANALYSIS

As Lee County completed the year, its governmental funds reported a combined fund balance of \$8,955,042, which is less than the \$9,806,251 combined fund balance at the end of FY09.

The General Fund, the operating fund for Lee County, ended FY10 with an ending balance of \$4,156,722, compared to the prior year ending balance of \$4,627,586, a decrease of \$470,864. Revenues decreased \$68,308. Expenditures increased \$474,209, primarily due to jail project expenditures in FY10.

The Mental Health Fund ended FY10 with an ending balance of \$1,264,619, compared to the prior year ending balance of \$839,014, an increase of \$425,605. Revenues decreased \$393,142, primarily due to a decrease in the state payment program funding. Expenditures decreased \$240,050.

The Secondary Roads Fund ended FY10 with an ending balance of \$1,579,534, compared to the prior year ending balance of \$1,112,441, an increase of \$467,093. Revenues increased \$232,809, primarily due to an increase of approximately \$158,000 in road use tax funding and an increase of approximately \$106,000 in IJOBS funding. Expenditures increased \$8,065.

During FY10, the County issued \$500,000 of general obligation emergency services communication equipment bonds and loaned the proceeds to the Lee County Public Safety Answering Point Association to pay the cost of the acquisition of emergency services communication equipment. The Debt Service Fund ended FY10 with an ending balance of \$536,831, compared to the prior year ending balance of \$34,753, an increase of \$502,078.

BUDGETARY HIGHLIGHTS

Over the course of the year, Lee County amended its budget three times. The first amendment was made on February 23, 2010 to allow for the Argyle sanitary sewer project, jail project, public safety and debt service disbursements. The second amendment was made on April 6, 2010. This amendment was made for the issuance of \$500,000 of bonds for E-911 equipment. The third amendment was made on May 25, 2010. This amendment was to allow for additional grants for the conservation department, additional work at Pollmiller Park, additional road disbursements on Valley Road and additional elections expense due to a runoff election.

The County's receipts were \$1,041,214 less than budgeted, a variance of 4.6%. Intergovernmental receipts were approximately \$1,145,000 less than budgeted, primarily due to allowable growth reduction of \$253,475, less funding for the social services block grant of \$143,300, less Medicaid payments received of \$386,448 and an anticipated grant for the Ameren property which was not received during FY10.

Total disbursements were \$2,200,041 less than the amended budget, a variance of 8.4%. Actual disbursements for the physical health and social services, mental health and capital projects functions were \$634,848, \$337,281 and \$392,949, respectively, less than budgeted. The physical health and social services function shortfall was primarily due a reduction in health department grants and related disbursements. The mental health function decreased primarily due to a reduction in disbursements. There were no major road construction/bridge replacements started or finished in FY10. The jail project was not completed during FY10 and there will be additional disbursements to complete the project in FY11.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the County had invested \$37.7 million, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment, transportation equipment and administrative offices. This amount is a net increase of approximately \$961,000 over FY09. The most significant change to capital assets during FY10 was the increase in construction in progress of approximately \$1,402,000, primarily due to the on-going jail project.

Lee County had depreciation/amortization expense of approximately \$2.2 million in FY10 and total accumulated depreciation/amortization of approximately \$25.9 million at June 30, 2010. Additional information about the County's capital assets is included in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2010, the County had approximately \$9,389,000 in long-term debt outstanding. This represents a slight increase of approximately \$63,000 from the FY09 total.

Outstanding debt increased primarily due to general obligation bonds of \$500,000 for the acquisition of emergency services communication equipment. 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. Lee County's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$81.6 million. Additional information about the County's long-term debt is included in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

From FY09 to FY10, the countywide and the rural services property taxable valuations increased approximately \$36.8 million and \$17.4 million, respectively. In FY11, the countywide and the rural services property taxable valuations increased approximately \$26.3 million and \$20.6 million, respectively.

Amounts budgeted for disbursements in the FY11 operating budget are approximately \$23.6 million, a decrease of 3.7% from the FY10 actual disbursements of approximately \$24.5 million. The County's ending fund balances are expected to end FY11 with a budgeted ending cash balance of approximately \$6 million, compared to the June 30, 2010 actual cash balance of approximately \$8.1 million.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the County's citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lee County Board of Supervisors at P.O. Box 488, Fort Madison, IA 52627-0488.

Basic Financial Statements

Exhibit A

Lee County
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 10,546,533
Receivables:	
Property tax:	
Delinquent	32,594
Succeeding year	10,178,000
Interest and penalty on property tax	32,341
Accounts	217,953
Accrued interest	22,321
E911 loan	500,000
Due from other governments	897,238
Inventories	665,049
Capital assets (net of accumulated depreciation)	<u>37,692,621</u>
Total assets	<u>60,784,650</u>
Liabilities	
Accounts payable	1,170,258
Accrued interest payable	35,262
Salaries and benefits payable	225,749
Due to other governments	440,698
Deferred revenue:	
Succeeding year property tax	10,178,000
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	460,000
Bank loans	33,219
Capital lease purchase agreements	34,552
Compensated absences	310,706
Portion due or payable after one year:	
General obligation bonds	8,575,000
Bank loans	265,520
Capital lease purchase agreements	20,369
Compensated absences	180,033
Net OPEB liability	<u>132,948</u>
Total liabilities	<u>22,062,314</u>

Lee County
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>
Net Assets	
Invested in capital assets, net of related debt	32,340,157
Restricted for:	
Nonexpendable:	
Permanent fund - hospice care	82,500
Expendable:	
Supplemental levy purposes	1,185,152
Mental health purposes	1,266,277
Secondary roads purposes	1,430,412
Debt service	538,824
Building repair and maintenance	787,770
Other purposes	554,003
Unrestricted	<u>537,241</u>
Total net assets	<u>\$ 38,722,336</u>

See notes to financial statements.

Lee County

Lee County

Statement of Activities

Year ended June 30, 2010

	Expenses	Program Revenues			Net
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	(Expense) Revenue and Changes in Net Assets
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 3,807,022	205,745	151,584	8,975	(3,440,718)
Physical health and social services	3,800,829	1,499,401	1,146,364	-	(1,155,064)
Mental health	4,379,535	134,132	2,506,420	-	(1,738,983)
County environment and education	1,224,372	29,157	462,775	-	(732,440)
Roads and transportation	5,477,997	39,228	2,978,744	155,905	(2,304,120)
Governmental services to residents	901,263	501,572	44,586	-	(355,105)
Administration	2,247,111	36,349	52,385	-	(2,158,377)
Non-program	350,895	246,885	160,327	-	56,317
Interest on long-term debt	354,340	-	-	-	(354,340)
Total	\$ 22,543,364	2,692,469	7,503,185	164,880	(12,182,830)
General Revenues:					
Property and other county tax levied:					
General purposes					8,810,272
Debt services					714,362
Penalty and interest on property tax					150,459
Gaming wager tax					79,307
State tax credits					456,824
Local option sales tax					1,586,040
Unrestricted investment earnings					163,360
Gain on disposition of capital assets					14,124
Miscellaneous					165,091
Total general revenues					12,139,839
Change in net assets					(42,991)
Net assets beginning of year					38,765,327
Net assets end of year					\$ 38,722,336

See notes to financial statements.

Lee County
Balance Sheet
Governmental Funds

June 30, 2010

	General	Special Revenue	
		Mental Health	Secondary Roads
Assets			
Cash and pooled investments:			
County Treasurer	\$ 4,170,139	1,807,633	820,519
Component units	-	-	-
Receivables:			
Property tax:			
Delinquent	21,418	6,745	-
Succeeding year	6,591,000	2,076,000	-
Interest and penalty on property tax	32,341	-	-
Accounts	52,122	411	750
Accrued interest	21,074	-	-
E911 loan	-	-	-
Due from other funds	3,186	-	-
Due from other governments	542,504	-	164,951
Inventories	-	-	660,994
Total assets	\$ 11,433,784	3,890,789	1,647,214
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 307,554	173,823	18,079
Salaries and benefits payable	161,627	3,660	45,395
Due to other funds	3,607	37	19
Due to other governments	74,446	365,866	386
Deferred revenue:			
Succeeding year property tax	6,591,000	2,076,000	-
Other	138,828	6,784	3,801
Total liabilities	<u>7,277,062</u>	<u>2,626,170</u>	<u>67,680</u>
Fund balances:			
Reserved for:			
Inventories	-	-	660,994
Supplemental levy purposes	1,221,020	-	-
Debt service	-	-	-
Capital projects	-	-	-
Hospice care	-	-	-
Building repair and maintenance (local option sales tax)	787,770	-	-
E911 loan receivable	-	-	-
Specific purposes	-	-	-
Unreserved:			
Designated for future capital projects	56,828	-	-
Undesignated, reported in:			
General fund	2,091,104	-	-
Special revenue funds	-	1,264,619	918,540
Total fund balances	<u>4,156,722</u>	<u>1,264,619</u>	<u>1,579,534</u>
Total liabilities and fund balances	\$ 11,433,784	3,890,789	1,647,214

See notes to financial statements.

Debt Service	Nonmajor	Total
36,594	1,256,447	8,091,332
-	254,233	254,233
2,228	2,203	32,594
728,000	783,000	10,178,000
-	-	32,341
-	163,041	216,324
2	335	21,411
500,000	-	500,000
-	-	3,186
-	189,783	897,238
-	-	660,994
1,266,824	2,649,042	20,887,653
-	397,173	896,629
-	13,069	223,751
-	-	3,663
-	-	440,698
728,000	783,000	10,178,000
1,993	38,464	189,870
729,993	1,231,706	11,932,611
-	-	660,994
-	-	1,221,020
36,831	-	36,831
-	71,392	71,392
-	106,043	106,043
-	-	787,770
500,000	-	500,000
-	41,495	41,495
-	-	56,828
-	-	2,091,104
-	1,198,406	3,381,565
536,831	1,417,336	8,955,042
1,266,824	2,649,042	20,887,653

Lee County

Lee County

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

June 30, 2010

Total governmental fund balances (page 19) \$ 8,955,042

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 governmental funds. The cost of assets is \$63,439,100 and the accumulated depreciation is \$25,840,334. 37,598,766

Other long-term assets are not available to pay for current year expenditures and, therefore, are deferred in the governmental funds. 189,870

The Internal Service Funds are used by management to charge the costs of various services to individual departments and funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets, as follows:

Capital assets of \$202,238, net of accumulated depreciation of \$108,383	\$ 93,855	
Compensated absences	(5,028)	
Net OPEB liability	(1,134)	
Other net assets	1,932,412	2,020,105

Long-term liabilities, including general obligation bonds payable, bank loans payable, capital lease purchase agreements payable, other postemployment benefits payable, accrued interest payable and compensated absences payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds. (10,041,447)

Net assets of governmental activities (page 15) \$ 38,722,336

See notes to financial statements.

Lee County

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

Year ended June 30, 2010

	General	Special Revenue	
		Mental Health	Secondary Roads
Revenues:			
Property and other county tax	\$ 6,164,355	2,054,109	-
Local option sales tax	403,663	-	-
Interest and penalty on property tax	143,078	-	-
Intergovernmental	3,187,291	2,557,406	2,974,943
Licenses and permits	75,959	-	10,310
Charges for service	806,764	-	36
Use of money and property	177,866	73,548	-
Miscellaneous	115,281	26,621	70,647
Total revenues	<u>11,074,257</u>	<u>4,711,684</u>	<u>3,055,936</u>
Expenditures:			
Operating:			
Public safety and legal services	3,341,108	-	-
Physical health and social services	3,339,214	-	-
Mental health	-	4,286,079	-
County environment and education	1,374,002	-	-
Roads and transportation	-	-	3,790,575
Governmental services to residents	891,372	-	-
Administration	2,214,829	-	-
Non-program	103,361	-	-
Debt service	-	-	-
Capital projects	355,400	-	8,268
Total expenditures	<u>11,619,286</u>	<u>4,286,079</u>	<u>3,798,843</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(545,029)</u>	<u>425,605</u>	<u>(742,907)</u>
Other financing sources (uses):			
Capital lease purchase agreement	41,165	-	-
Operating transfers in	33,000	-	1,210,000
Operating transfers out	-	-	-
General obligation bonds issued	-	-	-
Total other financing sources (uses)	<u>74,165</u>	<u>-</u>	<u>1,210,000</u>
Net change in fund balances	(470,864)	425,605	467,093
Fund balances beginning of year	<u>4,627,586</u>	<u>839,014</u>	<u>1,112,441</u>
Fund balances end of year	<u>\$ 4,156,722</u>	<u>1,264,619</u>	<u>1,579,534</u>

See notes to financial statements.

Debt Service	Nonmajor	Total
714,362	666,458	9,599,284
-	1,210,990	1,614,653
-	-	143,078
32,749	391,287	9,143,676
-	-	86,269
-	60,888	867,688
2,056	73,372	326,842
-	90,927	303,476
<u>749,167</u>	<u>2,493,922</u>	<u>22,084,966</u>
-	547,524	3,888,632
-	477,854	3,817,068
-	41,108	4,327,187
-	119,457	1,493,459
-	-	3,790,575
-	2,179	893,551
-	1,769	2,216,598
-	-	103,361
747,089	-	747,089
-	1,836,152	2,199,820
<u>747,089</u>	<u>3,026,043</u>	<u>23,477,340</u>
2,078	(532,121)	(1,392,374)
-	-	41,165
-	-	1,243,000
-	(1,243,000)	(1,243,000)
500,000	-	500,000
<u>500,000</u>	<u>(1,243,000)</u>	<u>541,165</u>
502,078	(1,775,121)	(851,209)
34,753	3,192,457	9,806,251
<u>536,831</u>	<u>1,417,336</u>	<u>8,955,042</u>

Lee County

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement
of Activities

Year ended June 30, 2010

Net change in fund balances - Total governmental funds (page 23) \$ (851,209)

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 outlays and contributed capital assets exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 2,897,657	
Capital assets contributed by the Iowa Department of Transportation	164,880	
Depreciation expense	<u>(2,157,603)</u>	904,934

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the proceeds from the disposition increase financial resources in the governmental funds. 14,124

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	4,658	
Other	<u>(15,140)</u>	(10,482)

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 debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year debt issues exceeded debt repayments, as follows:

Issued	(541,165)	
Repaid	<u>477,855</u>	(63,310)

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	31,200	
Other postemployment benefits	(61,373)	
Interest on long-term debt	<u>(2,251)</u>	(32,424)

The Internal Service Funds are used by management to charge the costs of various services to individual departments and funds. The change in net assets of the Internal Service Funds is reported with governmental activities. (4,624)

Change in net assets of governmental activities (page 17) \$ (42,991)

See notes to financial statements.

Lee County
 Statement of Net Assets
 Proprietary Funds
 June 30, 2010

	Internal Service
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,200,968
Accounts receivable	1,629
Accrued interest receivable	910
Due from other funds	3,810
Inventories	4,055
Noncurrent assets:	
Capital assets, net of accumulated depreciation	93,855
Total assets	2,305,227
Liabilities	
Current liabilities:	
Accounts payable	273,629
Salaries and benefits payable	1,998
Due to other funds	3,333
Compensated absences	5,028
Non-current liabilities:	
Net OPEB liability	1,134
Total liabilities	285,122
Net Assets	
Invested in capital assets	93,855
Unrestricted	1,926,250
Total net assets	\$ 2,020,105

See notes to financial statements.

Exhibit H

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

Year ended June 30, 2010

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds and other governmental units		\$ 2,017,260
Reimbursements from employees and others		<u>131,480</u>
Total operating revenues		<u>2,148,740</u>
Operating expenses:		
Medical and health services	\$ 1,811,564	
Supplemental insurance	6,668	
Salaries and benefits	80,547	
Administrative fees, network access fees and stop-loss premium	137,245	
Supplies, utilities and data processing	55,254	
Maintenance agreements	11,540	
Non-capitalized equipment	20,070	
Depreciation	<u>31,386</u>	<u>2,154,274</u>
Operating loss		(5,534)
Non-operating revenues:		
Interest income		<u>910</u>
Net loss		(4,624)
Net assets beginning of year		<u>2,024,729</u>
Net assets end of year		<u><u>\$ 2,020,105</u></u>
See notes to financial statements.		

Lee County
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2010

	Internal Service
Cash flows from operating activities:	
Cash received from operating funds and other governmental units	\$ 2,035,487
Cash received from employees and others	110,775
Cash paid to suppliers for services	(2,130,120)
Net cash provided by operating activities	16,142
Cash flows from capital and related financing activities:	
Purchase of equipment	(73,154)
Cash flows from investing activities:	
Interest on investments	20,613
Net (decrease) in cash and cash equivalents	(36,399)
Cash and cash equivalents beginning of year	2,237,367
Cash and cash equivalents end of year	\$ 2,200,968
Reconciliation of operating loss to net cash provided by operating activities:	
Operating (loss)	\$ (5,534)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	31,386
Changes in assets and liabilities:	
Increase in accounts receivable	(706)
Increase in due from other funds	(879)
Decrease in inventories	46
Decrease in accounts payable	(13,308)
Increase in salaries and benefits payable	322
Increase in due to other funds	3,299
Increase in compensated absences	989
Increase in net OPEB liability	527
Net cash provided by operating activities	\$ 16,142

See notes to financial statements.

Lee County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2010

Assets

Cash and pooled investments:	
County Treasurer	\$ 2,246,000
Other County officials	457,830
Receivables:	
Property tax:	
Delinquent	92,856
Succeeding year	28,838,000
Accounts	21,179
Accrued interest	327
Special assessments	140,352
Drainage assessments	71,059
Due from other governments	78,330
Total assets	<u>31,945,933</u>

Liabilities

Accounts payable	335,353
Salaries and benefits payable	9,124
Due to other governments	31,031,672
Trusts payable	405,463
Compensated absences	14,321
Bank loan	150,000
Total liabilities	<u>31,945,933</u>

Net assets	<u><u>\$ -</u></u>
-------------------	--------------------

See notes to financial statements.

Lee County

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

Lee 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, Lee 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.

These financial statements present Lee County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities which are legally separate from the County, but are so intertwined with the County they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

The Great River Progressive Housing Corporation has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of fostering low-income housing within Lee County. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Great River Progressive Housing Corporation meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

The Lincoln Ridge Limited Partnership is an agreement between the Great River Progressive Housing Corporation (General Partner) and Lee County Development Corporation (Limited Partner) pursuant to the provisions of the Iowa Uniform Limited Partnership Act. The Partnership is established for the sole purpose of engaging in the business of constructing, acquiring, developing, owning, renting, leasing and disposing of a residential multi-dwelling housing project of up to 16

units for hard to house persons of low income. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Lincoln Ridge Limited Partnership meets the definition of a component unit which should be blended. The partnership's financial report for the year ended December 31, 2009 was used to provide the financial activity included in this report. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

The Lee County Economic Development Group has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of encouraging economic development and expansion in Lee County. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Lee County Economic Development Group meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

The Three Rivers Conservation Foundation has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting the mission of the Lee County Conservation Board. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Three Rivers Conservation Foundation meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

The Friends of the Lee County Health Department has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting and enhancing the health of the public. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Friends of the Lee County Health Department meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

Discretely Presented Component Unit

Lee County EMS Ambulance, Inc. (EMS) has been incorporated under the provisions of the Iowa Business Corporation Act to provide ambulance services. The County and EMS have entered into a 28E Agreement as a joint undertaking to assure ambulance services are provided in Lee County. In accordance with the agreement, ambulance service is primarily financed through revenue from recipients of the services and through a subsidy provided by the County. The Lee County Board of Supervisors must approve user rates and changes to these rates.

In accordance with criteria set forth by the Governmental Accounting Standards Board, EMS meets the definition of a component unit which should be discretely presented. Condensed financial statements for the year ended December 31, 2009 presented in Note 14 were prepared on the accrual basis of accounting. Unaudited financial statements may be obtained from Lee County EMS Ambulance, Inc., 314 South Main Street, Donnellson, IA 50265.

Jointly Governed Organizations

The County also 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 representative to the following boards and commissions: Lee County Assessor's Conference Board, Lee County Emergency Management Commission, Lee County Joint E911 Service Board and Children First – Lee/Van Buren Empowerment Area. Financial transactions of these organizations are included in

the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Great River Regional Waste Authority, South Iowa Area Crime Commission, South Iowa Detention Service Agency, Lee County Narcotics Task Force, Southeast Iowa Regional Planning Commission, Southeast Iowa Community Action Agency, Regional Workforce Investment Board, Quad County Decategorization Board, Geode Resource Conservation and Development, Inc., Regional Utility Service Systems Commission and Southeast Iowa Regional Economic, Port Authority and Public Safety Answering Point (PSAP) Association.

B. Basis of Presentation

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

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

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

Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the County, including the County's Permanent Fund.

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

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

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

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

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

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 Automated Government Money 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 – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2009.

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.

Special Assessments Receivable – Special assessments receivable represent the amounts due from individuals for work done which 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. Special assessments receivable represent assessments which have been made but have not been collected. Succeeding year drainage assessments receivable represents remaining assessments which are payable but not yet due.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2010, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

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

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

Asset Class	Estimated Useful lives (In Years)
Buildings	40 - 50
Building improvements	20 - 50
Infrastructure	10 - 65
Intangibles	3 - 20
Equipment	2 - 20
Vehicles	3 - 10

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

Net Assets – The unrestricted net assets of the Internal Service, Employee Health Plan Trust Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted. However, disbursements exceeded the amount budgeted in the nonprogram function before the February 23, 2010 budget amendment was adopted.

(2) Cash and Pooled Investments

The County’s deposits in banks at June 30, 2010 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 Three Rivers Conservation Foundation’s investments at June 30, 2010 consist of stocks and stock mutual funds with a fair value of \$98,244. Disclosure of concentration of credit risk and interest rate risk do not apply to these investments.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
Internal Service:		
Supplies	General	\$ 3,607
	Special Revenue:	
	Mental Health	37
	Secondary Roads	19
	Internal Service:	
	Information Technology	147
		<u>3,810</u>
General	Internal Service:	
	Employee Health Plan Trust	3,186
		<u>3,186</u>
Total		<u>\$ 6,996</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, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Conservation Land Acquisition	\$ 33,000
Special Revenue: Secondary Roads	Rural Services	1,210,000
Total		<u>\$ 1,243,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 656,307	336,829	-	993,136
Land, road network	976,085	-	-	976,085
Construction in progress	5,026,581	2,374,503	(972,336)	6,428,748
Total capital assets not being depreciated/amortized	<u>6,658,973</u>	<u>2,711,332</u>	<u>(972,336)</u>	<u>8,397,969</u>
Capital assets being depreciated/amortized:				
Buildings	7,678,318	29,723	-	7,708,039
Improvements other than buildings	697,056	30,966	-	728,022
Equipment and vehicles	6,351,951	181,942	(116,153)	6,417,740
Equipment - internal service	174,288	-	(45,204)	129,084
Intangibles	-	125,420	-	125,420
Intangibles - internal service	-	73,154	-	73,154
Infrastructure, road network	39,089,574	972,336	-	40,061,910
Total capital assets being depreciated/amortized	<u>53,991,187</u>	<u>1,413,541</u>	<u>(161,357)</u>	<u>55,243,369</u>
Less accumulated depreciation/amortization for:				
Buildings	3,941,695	206,350	-	4,148,045
Improvements other than buildings	523,257	14,227	-	537,484
Equipment and vehicles	4,096,617	489,938	(113,433)	4,473,122
Equipment, internal service	122,201	16,754	(45,204)	93,751
Intangibles	-	116,251	-	116,251
Intangibles - internal service	-	14,631	-	14,631
Infrastructure, road network	15,234,595	1,330,838	-	16,565,433
Total accumulated depreciation/amortization	<u>23,918,365</u>	<u>2,188,989</u>	<u>(158,637)</u>	<u>25,948,717</u>
Total capital assets being depreciated/amortized, net	<u>30,072,822</u>	<u>(775,448)</u>	<u>(2,720)</u>	<u>29,294,652</u>
Governmental activities capital assets, net	<u>\$ 36,731,795</u>	<u>1,935,884</u>	<u>(975,056)</u>	<u>37,692,621</u>

Depreciation/amortization expense was charged to the following functions:

Governmental activities:		
Public safety and legal services		\$ 147,112
Physical health and social services		65,903
Mental health		82,836
County environment and education		30,301
Roads and transportation		1,690,178
Administration		172,659
		<u>172,659</u>
Total depreciation/amortization expense - governmental activities		<u>\$ 2,188,989</u>

(6) Due to Other Governments

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

Fund	Description	Amount
General	Services	<u>\$ 74,446</u>
Special Revenue:		
Mental Health	Services	365,866
Secondary Roads	Services	386
		<u>366,252</u>
Total for governmental funds		<u>\$ 440,698</u>
Agency:		
County Assessor	Collections	\$ 774,289
Schools		16,652,356
Community Colleges		1,037,175
Corporations		10,690,487
Auto License and Use Tax		597,513
All other		1,279,852
Total for agency funds		<u>\$ 31,031,672</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	General Obligation Jail Bonds	General Solid Waste Disposal Bonds	General Emergency Services Bonds	County Bank Loan	Great River Progressive Housing Corporation Bank Loan	Capital Lease Purchase Agreements	Compen- sated Absences	Net OPEB Liability	Total
Balance beginning of year	\$ 5,230,000	3,700,000	-	66,437	263,785	65,128	520,950	71,048	9,917,348
Increases	-	-	500,000	-	-	41,165	476,501	61,900	1,079,566
Decreases	180,000	215,000	-	6,310	25,173	51,372	506,712	-	984,567
Balance end of year	<u>\$ 5,050,000</u>	<u>3,485,000</u>	<u>500,000</u>	<u>60,127</u>	<u>238,612</u>	<u>54,921</u>	<u>490,739</u>	<u>132,948</u>	<u>10,012,347</u>
Due within one year	<u>\$ 190,000</u>	<u>225,000</u>	<u>45,000</u>	<u>6,666</u>	<u>26,553</u>	<u>34,552</u>	<u>310,706</u>	<u>-</u>	<u>838,477</u>

General Obligation Jail Bonds

The County sold \$5,400,000 of general obligation bonds dated June 1, 2008 to pay the cost to construct, furnish and equip an addition to and renovate portions of the County Jail, including an area for centralized dispatch.

A summary of the annual bond principal and interest requirements to maturity is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2011	3.50%	\$ 190,000	198,370	388,370
2012	3.50	195,000	191,720	386,720
2013	3.50	205,000	184,895	389,895
2014	3.50	215,000	177,720	392,720
2015	3.50	225,000	170,195	395,195
2016-2020	3.50-5.00	1,280,000	701,945	1,981,945
2021-2025	3.80-4.00	1,600,000	421,900	2,021,900
2026-2028	4.00	1,140,000	92,400	1,232,400
Total		\$ 5,050,000	2,139,145	7,189,145

General Obligation Solid Waste Disposal Bonds

The County sold \$3,900,000 of general obligation bonds dated November 1, 2007 for the purpose of paying Lee County's share of the cost of construction of works and facilities necessary to expand the Great River Regional Waste Authority's landfill to provide an additional fifteen years of available permitted and approved landfill for disposal of Lee County solid waste.

A summary of the annual bond principal and interest requirements to maturity is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2011	4.25%	\$ 225,000	137,282	362,282
2012	4.25	235,000	127,718	362,718
2013	4.20	245,000	117,732	362,732
2014	4.00	260,000	107,442	367,442
2015	4.00	270,000	97,042	367,042
2016-2020	3.73-4.00	1,535,000	318,362	1,853,362
2021-2022	3.85-3.90	715,000	41,946	756,946
Total		\$ 3,485,000	947,524	4,432,524

General Obligation Emergency Services Communication Equipment Bonds

The County sold \$500,000 of general obligation bonds dated April 6, 2010 for the purpose of paying costs in connection with the acquisition and installation of emergency services communication equipment.

A summary of the annual bond principal and interest requirements to maturity is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2011	2.10%	\$ 45,000	20,796	65,796
2012	2.10	45,000	17,095	62,095
2013	2.60	45,000	16,150	61,150
2014	3.10	50,000	14,980	64,980
2015	3.45	50,000	13,430	63,430
2016-2020	3.80-5.00	265,000	37,350	302,350
Total		\$ 500,000	119,801	619,801

These bonds were issued under the U.S. Department of the Treasury Recovery Zone Economic Development Bonds program. As such, the County will receive a credit for 45% of the interest payable to bond holders.

County Bank Loan

In January 2002, the County entered into a loan agreement with a bank to borrow \$100,000 for the construction of apartments to house persons with disabilities. In October 2002, the County modified the loan agreement, extending the maturity date to October 15, 2017 and requiring semi-annual payments, including interest at 5.55% per annum. The balance of the loan at June 30, 2010 was \$60,127.

A summary of the annual loan principal and interest requirements to maturity is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2011	5.55%	\$ 6,666	3,246	9,912
2012	5.55	7,033	2,878	9,911
2013	5.55	7,436	2,476	9,912
2014	5.55	7,855	2,056	9,911
2015	5.55	8,298	1,614	9,912
2016-2018	5.55	22,839	1,939	24,778
Total		\$ 60,127	14,209	74,336

During the year ended June 30, 2010, the County paid principal of \$6,310 on the loan.

Great River Progressive Housing Corporation Bank Loan

On January 13, 2003, the Great River Progressive Housing Corporation (GRPHC), general partner to Lincoln Ridge Limited Partnership (LRLP), entered into a loan agreement with a bank to borrow \$400,000 for the construction of a low-income housing project for persons with mental disabilities. The loan bears interest at 5.41% per annum and requires semi-annual payments on December 15 and June 15 of \$19,555, including interest, with the final payment due on December 15, 2017. The amount of each principal and interest payment is equivalent to Lee County's payment to the GRPHC pursuant to a service agreement. During the year ended June 30, 2010, the GRPHC made payments on the loan, consisting of principal of \$25,173 and interest of \$13,936. The balance owed on the loan at June 30, 2010 was \$238,612.

A summary of the annual loan principal and interest requirements to maturity on the bank loan is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2011	5.41%	\$ 26,553	12,556	39,109
2012	5.41	27,980	11,129	39,109
2013	5.41	29,543	9,566	39,109
2014	5.41	31,163	7,946	39,109
2015	5.41	32,872	6,237	39,109
2016-2018	5.41	90,501	7,503	98,004
Total		\$ 238,612	54,937	293,549

Capital Lease Purchase Agreements

The County has entered into capital lease purchase agreements to lease six sheriff's vehicles and one tractor.

The following is a schedule of the future minimum lease payments, including interest at rates ranging from 5.95% to 7.50% per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2010:

Year Ending June 30,	Sheriff's Vehicles	Kubota Tractor	Total
2011	\$ 29,570	8,596	38,166
2012	14,647	7,186	21,833
Total minimum lease payments	44,217	15,782	59,999
Less amount representing interest	(3,614)	(1,464)	(5,078)
Present value of net minimum lease payments	\$ 40,603	14,318	54,921

The book value of assets acquired under capital leases totaled \$163,839. Payments under capital lease purchase agreements for the year ended June 30, 2010 totaled \$52,912.

(8) E911 Loan Receivable

On April 1, 2010, the County entered into a \$500,000 loan agreement with the E911 Service Board. The E911 Service Board agreed to pay all amounts due from the County under the general obligation emergency services communication equipment bonds issued on April 6, 2010.

A summary of the annual bond principal and interest requirements to maturity is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2011	2.10%	\$ 45,000	20,796	65,796
2012	2.10	45,000	17,095	62,095
2013	2.60	45,000	16,150	61,150
2014	3.10	50,000	14,980	64,980
2015	3.45	50,000	13,430	63,430
2016-2020	3.80-5.00	265,000	37,350	302,350
Total		\$ 500,000	119,801	619,801

The bonds were issued under the U.S. Department of the Treasury Recovery Zone Economic Development Bonds program. As such, the County will receive a credit for 45% of the interest payable to bond holders. The E911 Service Board is responsible for 55% of the interest payable to bond holders as reflected above.

(9) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the County is required to contribute 6.65% 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, 2010, 2009 and 2008 were \$445,041, \$412,993 and \$374,395, respectively, equal to the required contributions for each year.

(10) Endowment

In 1998, the Lee County Health Department was given \$82,500 to establish the Gilbert Neff Memorial for the purpose of assisting needy persons in gaining access to hospice care. The endowment requires the principal amount be held in trust and only the interest generated by the investment be spent. The Health Department has established written guidelines for the use of these funds.

The County maintains the endowment principal in the Permanent, Neff Memorial Fund. Interest earned on the principal is credited to the Special Revenue, Neff Memorial Fund to be used in accordance with the endowment provisions. The balances in these funds are reported as net assets restricted for hospice care.

(11) Other Postemployment Benefits (OPEB)

Plan Description. The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 159 active and 4 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the County's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 84,700
Interest on net OPEB obligation	2,900
Adjustment to annual required contribution	<u>(2,700)</u>
Annual OPEB cost	84,900
Contributions made	<u>(23,000)</u>
Increase in net OPEB obligation	61,900
Net OPEB obligation beginning of year	<u>71,048</u>
Net OPEB obligation end of year	<u>\$ 132,948</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the County contributed \$23,000 to the medical plan. Plan members eligible for benefits contributed \$30,950, or 57% of the premium costs.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 84,900	27.1%	\$ 132,948

Funded Status and Funding Progress. As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$781,012, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$781,012. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5,879,000 and the ratio of the UAAL to covered payroll was 13.3%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress,

presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the County's funding policy. The projected annual medical trend rate is 9.5%. The ultimate medical trend rate is 4.5%. The medical trend rate is reduced 0.5% each year until reaching the 4.5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$1,165 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(12) Risk Management

The County is exposed to various risks of loss related to torts; theft damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by purchase of commercial insurance. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Employee Health Insurance Plan

The Internal Service, Employee Health Plan 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 \$100,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Health Plan 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 Employee Health Plan Trust Fund. The County's contribution for the year ended June 30, 2010 was \$1,885,654.

Amounts payable from the Employee Health Plan Trust Fund at June 30, 2010 total \$271,371, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior year and current year claims and to establish a reserve for catastrophic losses. That reserve was \$1,779,795 at June 30, 2010 and is reported as a designation of the

Internal Service, Employee Health Plan Trust Fund net assets. 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 liabilities for claims for the current year is as follows:

Unpaid claims at July 1, 2009	\$ 264,985
Incurred claims (including claims incurred but not reported as of June 30, 2010)	1,811,597
Payments on claims during the fiscal year	<u>(1,805,211)</u>
Unpaid claims at June 30, 2010	<u><u>\$ 271,371</u></u>

(14) Lee County EMS Ambulance, Inc.

Lee County EMS Ambulance, Inc. (EMS) provides ambulance service for Lee County. EMS reports its financial activity using a calendar year end. As permitted by GASB Statement No. 34, the County has opted to present condensed financial information for its discretely presented component unit. Following is the unaudited condensed financial information for EMS for the year ended December 31, 2009.

Condensed Statement of Net Assets	
December 31, 2009	
(Unaudited)	
Assets	
Capital assets, net of accumulated depreciation	\$ 165,426
Other	<u>405,898</u>
Total assets	<u><u>571,324</u></u>
Liabilities	
Other	<u>97,811</u>
Net assets:	
Invested in capital assets	165,426
Unrestricted	<u>308,087</u>
Total net assets	<u><u>\$ 473,513</u></u>

Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets
Year ended December 31, 2009
(Unaudited)

Operating revenues:		
Patient income		\$ 1,357,896
County subsidy		390,000
Other		2,800
Total operating revenues		1,750,696
Operating expenses:		
Salaries and benefits	\$ 1,133,118	
Insurance	258,590	
Other	417,409	
Operating loss		(58,421)
Non-operating revenues (expenses):		
Interest income		1,773
Gain on sale of asset		2,500
Net non-operating revenues		4,273
Net loss		(54,148)
Net assets beginning of year		527,661
Net assets end of year		\$ 473,513

(15) Community Development Block Grant (CDBG)

The County entered into a forgivable loan agreement dated June 20, 2006 with the Iowa Department of Economic Development for \$574,000. The proceeds were received during the year ended June 30, 2008 and were loaned to a local business to assist with economic development. The local business agreed to carry out a project totaling \$23,334,650, create at least 261 full time positions by June 20, 2009 with an average wage of \$15.75 and at least 51% of the positions created will be filled by persons from low and moderate income households.

The local business agreed, in the event the total job creation/retention requirement is not met, funds will be returned to the County based on the difference between actual jobs created/retained and the requirement multiplied by \$2,199. If the average wage of all the project jobs is not met, jobs not meeting the starting wages per the agreement will not be counted toward the job obligation requirements. If the local business does not meet the project investment requirement, the amount to be repaid shall be the difference between the actual total project investment and the total project budget. Federal funds shall be disallowed based upon the ratio of \$1 of federal funds per each \$39.65 to total project budget. Should the benefit to low and moderate income persons not meet or exceed fifty-one percent, all federal funds shall be disallowed.

The County has met the requirements of the forgivable loan and the Iowa Department of Economic Development has forgiven the loan.

(16) Jointly Governed Organization

Lee County participates in the Lee County Public Safety Answering Point Association, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are included in the County's financial statements as part of Other Agency Funds because of the County's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2010:

Additions:

Contributions from governmental units:

General obligation bond proceeds received from Lee County		\$ 500,000	
Miscellaneous		252	
Total additions		<u>500,252</u>	

Deductions:

Legal services	\$ 6,000		
Equipment replacement	202,349		
Maintenance and rentals	10,000		
Building improvements	<u>70,290</u>	<u>288,639</u>	

Net 211,613

Balance beginning of year -

Balance end of year \$ 211,613

Lee County

Required Supplementary Information

Lee 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, 2010

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 11,146,559	-	11,146,559
Interest and penalty on property tax	142,875	-	142,875
Intergovernmental	9,324,871	439,686	8,885,185
Licenses and permits	91,908	-	91,908
Charges for service	859,068	-	859,068
Use of money and property	390,795	63,995	326,800
Miscellaneous	285,233	41,016	244,217
Total receipts	<u>22,241,309</u>	<u>544,697</u>	<u>21,696,612</u>
Disbursements:			
Public safety and legal services	3,818,972	-	3,818,972
Physical health and social services	3,348,965	14	3,348,951
Mental health	4,726,080	80,350	4,645,730
County environment and education	1,933,270	440,958	1,492,312
Roads and transportation	3,843,629	-	3,843,629
Governmental services to residents	895,549	-	895,549
Administration	2,172,080	-	2,172,080
Non-program	590,359	-	590,359
Debt service	747,088	-	747,088
Capital projects	2,416,063	-	2,416,063
Total disbursements	<u>24,492,055</u>	<u>521,322</u>	<u>23,970,733</u>
Excess (deficiency) of receipts over (under) disbursements	(2,250,746)	23,375	(2,274,121)
Other financing sources, net	507,809	7,809	500,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,742,937)	31,184	(1,774,121)
Balance beginning of year	10,088,502	223,049	9,865,453
Balance end of year	<u>\$ 8,345,565</u>	<u>254,233</u>	<u>8,091,332</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
11,070,046	11,070,046	76,513
114,020	114,020	28,855
9,287,979	10,030,353	(1,145,168)
82,200	82,200	9,708
1,013,958	1,013,958	(154,890)
270,994	270,994	55,806
276,635	156,255	87,962
<u>22,115,832</u>	<u>22,737,826</u>	<u>(1,041,214)</u>
3,847,663	3,900,209	81,237
3,966,799	3,983,799	634,848
4,983,011	4,983,011	337,281
1,576,504	1,653,729	161,417
3,910,642	4,074,642	231,013
931,450	946,450	50,901
2,278,223	2,353,223	181,143
62,000	657,811	67,452
746,888	808,888	61,800
2,479,954	2,809,012	392,949
<u>24,783,134</u>	<u>26,170,774</u>	<u>2,200,041</u>
(2,667,302)	(3,432,948)	1,158,827
-	500,000	-
(2,667,302)	(2,932,948)	1,158,827
8,654,107	8,654,107	1,211,346
<u>5,986,805</u>	<u>5,721,159</u>	<u>2,370,173</u>

Lee County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 22,241,309	(158,843)	22,082,466
Expenditures	24,492,055	(1,014,715)	23,477,340
Net	(2,250,746)	855,872	(1,394,874)
Other financing sources, net	507,809	33,356	541,165
Beginning fund balances	10,088,502	(282,251)	9,806,251
Ending fund balances	\$ 8,345,565	606,977	8,952,542

See accompanying independent auditor's report.

Lee County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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 blended component units, Internal Service and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Permanent 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 \$1,387,640. 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, 2010, disbursements did not exceed the amounts budgeted. However, the disbursements exceeded the amount budgeted in the nonprogram function before the February 23, 2010 budget amendment was adopted.

Lee County

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

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	Jul 1, 2008	-	\$ 781	781	0.00%	\$ 5,879	13.3%
2010	Jul 1, 2008	-	781	781	0.00%	5,879	13.3%

See Note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

Lee County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2010

	Rural Services	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff Reserves	Sheriff Commissary	Great River Progressive Housing Corp	Lincoln Ridge Limited Partnership
Assets							
Cash and pooled investments:							
County Treasurer	\$ 569,960	30,470	28,566	4,743	26,750	-	-
Component units	-	-	-	-	-	31	62,931
Receivables:							
Property tax:							
Delinquent	2,203	-	-	-	-	-	-
Succeeding year	783,000	-	-	-	-	-	-
Accounts	-	-	-	-	-	-	11,291
Accrued interest	-	16	15	-	-	-	-
Due from other governments	188,717	-	-	-	1,066	-	-
Total assets	\$ 1,543,880	30,486	28,581	4,743	27,816	31	74,222
Liabilities and Fund Equity							
Liabilities:							
Accounts payable	\$ 511	-	-	1,459	5,224	-	58,197
Salaries and benefits payable	12,464	605	-	-	-	-	-
Deferred revenue:							
Succeeding year property tax	783,000	-	-	-	-	-	-
Other	38,464	-	-	-	-	-	-
Total liabilities	834,439	605	-	1,459	5,224	-	58,197
Fund equity:							
Fund balances:							
Reserved for:							
Capital projects	-	-	-	-	-	-	-
Hospice care	-	-	-	-	-	-	-
Specific purposes	-	-	-	-	-	-	41,495
Unreserved:							
Undesignated	709,441	29,881	28,581	3,284	22,592	31	(25,470)
Total fund equity	709,441	29,881	28,581	3,284	22,592	31	16,025
Total liabilities and fund equity	\$ 1,543,880	30,486	28,581	4,743	27,816	31	74,222

See accompanying independent auditor's report.

Special Revenue											
Lee County	Three Rivers	Friends			Conservation					Permanent	
Economic	Conservation	of	Sheriff's	Electronic	Land	Memorial	Neff	Capital		Neff	
Development	Foundation	Public	Forfeiture	Transaction	Acquisition	Trust	Memorial	Projects		Memorial	Total
-	-	-	5,644	4	6,566	227,038	23,499	250,707		82,500	1,256,447
28,365	142,304	20,602	-	-	-	-	-	-	-	-	254,233
-	-	-	-	-	-	-	-	-	-	-	2,203
-	-	-	-	-	-	-	-	-	-	-	783,000
150,000	-	-	-	-	-	-	-	1,750	-	-	163,041
-	-	-	-	-	4	122	44	134	-	-	335
-	-	-	-	-	-	-	-	-	-	-	189,783
178,365	142,304	20,602	5,644	4	6,570	227,160	23,543	252,591		82,500	2,649,042
150,583	-	-	-	-	-	-	-	181,199		-	397,173
-	-	-	-	-	-	-	-	-		-	13,069
-	-	-	-	-	-	-	-	-		-	783,000
-	-	-	-	-	-	-	-	-		-	38,464
150,583	-	-	-	-	-	-	-	181,199		-	1,231,706
-	-	-	-	-	-	-	-	71,392		-	71,392
-	-	-	-	-	-	-	23,543	-		82,500	106,043
-	-	-	-	-	-	-	-	-		-	41,495
27,782	142,304	20,602	5,644	4	6,570	227,160	-	-		-	1,198,406
27,782	142,304	20,602	5,644	4	6,570	227,160	23,543	71,392		82,500	1,417,336
178,365	142,304	20,602	5,644	4	6,570	227,160	23,543	252,591		82,500	2,649,042

Lee County

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

Year ended June 30, 2010

	Rural Services	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff Reserves	Sheriff Commissary	Great River Progressive Housing Corp	Lincoln Ridge Limited Partnership
Revenues:							
Property and other county tax	\$ 666,458	-	-	-	-	-	-
Local option sales tax	1,210,990	-	-	-	-	-	-
Intergovernmental	35,764	25,010	-	-	-	41,113	-
Charges for service	-	-	4,580	-	49,288	-	-
Use of money and property	-	155	172	-	-	-	61,745
Miscellaneous	11	-	-	910	-	-	6,010
Total revenues	1,913,223	25,165	4,752	910	49,288	41,113	67,755
Expenditures:							
Operating:							
Public safety and legal services	493,266	-	-	4,342	45,784	-	-
Physical health and social services	-	-	-	-	-	-	84,031
Mental health	-	-	-	-	-	41,108	-
County environment and education	89,285	7,039	-	-	-	-	-
Governmental services to residents	2,179	-	-	-	-	-	-
Administration	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Total expenditures	584,730	7,039	-	4,342	45,784	41,108	84,031
Excess (deficiency) of revenues over (under) expenditures	1,328,493	18,126	4,752	(3,432)	3,504	5	(16,276)
Other financing uses:							
Operating transfers out	(1,210,000)	-	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	118,493	18,126	4,752	(3,432)	3,504	5	(16,276)
Fund balances beginning of year	590,948	11,755	23,829	6,716	19,088	26	32,301
Fund balances end of year	\$ 709,441	29,881	28,581	3,284	22,592	31	16,025

See accompanying independent auditor's report.

Special Revenue											
Lee County	Three Rivers	Friends			Conservation					Permanent	
Economic	Conservation	of	Sheriff's	Electronic	Land	Memorial	Neff	Capital		Neff	Total
Development	Foundation	Public	Forfeiture	Transaction	Acquisition	Trust	Memorial	Projects		Memorial	
Group		Health									
-	-	-	-	-	-	-	-	-	-	-	666,458
-	-	-	-	-	-	-	-	-	-	-	1,210,990
289,400	-	-	-	-	-	-	-	-	-	-	391,287
-	-	-	-	-	7,020	-	-	-	-	-	60,888
258	1,399	592	-	-	229	1,553	552	6,717	-	-	73,372
6,270	36,291	-	1,956	-	223	27,052	-	12,204	-	-	90,927
295,928	37,690	592	1,956	-	7,472	28,605	552	18,921	-	-	2,493,922
-	-	-	4,132	-	-	-	-	-	-	-	547,524
372,083	-	14	-	-	-	21,726	-	-	-	-	477,854
-	-	-	-	-	-	-	-	-	-	-	41,108
-	23,133	-	-	-	-	-	-	-	-	-	119,457
-	-	-	-	-	-	-	-	-	-	-	2,179
-	-	-	-	-	-	-	-	1,769	-	-	1,769
-	-	-	-	-	-	-	-	1,836,152	-	-	1,836,152
372,083	23,133	14	4,132	-	-	21,726	-	1,837,921	-	-	3,026,043
(76,155)	14,557	578	(2,176)	-	7,472	6,879	552	(1,819,000)	-	-	(532,121)
-	-	-	-	-	(33,000)	-	-	-	-	-	(1,243,000)
(76,155)	14,557	578	(2,176)	-	(25,528)	6,879	552	(1,819,000)	-	-	(1,775,121)
103,937	127,747	20,024	7,820	4	32,098	220,281	22,991	1,890,392	82,500	-	3,192,457
27,782	142,304	20,602	5,644	4	6,570	227,160	23,543	71,392	82,500	-	1,417,336

Schedule 3

Lee County
 Combining Schedule of Net Assets
 Internal Service Funds

June 30, 2010

	Supplies	Employee Health Plan Trust	Information Technology	Total
Assets				
Current assets:				
Cash and pooled investments	\$ 23,136	2,051,867	125,965	2,200,968
Accounts receivable	54	1,575	-	1,629
Accrued interest receivable	-	910	-	910
Due from other funds	3,810	-	-	3,810
Inventories	4,055	-	-	4,055
Noncurrent assets:				
Capital assets, net of accumulated depreciation	-	-	93,855	93,855
Total assets	31,055	2,054,352	219,820	2,305,227
Liabilities				
Current liabilities:				
Accounts payable	40	271,371	2,218	273,629
Salaries and benefits payable	-	-	1,998	1,998
Due to other funds	-	3,186	147	3,333
Compensated absences	-	-	5,028	5,028
Non-current liabilities:				
Net OPEB liability	-	-	1,134	1,134
Total liabilities	40	274,557	10,525	285,122
Net Assets				
Invested in capital assets	-	-	93,855	93,855
Unrestricted	31,015	1,779,795	115,440	1,926,250
Total net assets	\$ 31,015	1,779,795	209,295	2,020,105

See accompanying independent auditor's report.

Lee County

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

Year ended June 30, 2010

	Supplies	Employee Health Plan Trust	Information Technology	Total
Operating revenues:				
Reimbursements from operating funds and other governmental units	\$ 38,869	1,885,654	92,737	2,017,260
Reimbursements from employees and others	-	130,796	684	131,480
Total operating revenues	<u>38,869</u>	<u>2,016,450</u>	<u>93,421</u>	<u>2,148,740</u>
Operating expenses:				
Medical and health services	-	1,811,564	-	1,811,564
Supplemental insurance	-	6,668	-	6,668
Salaries and benefits	-	-	80,547	80,547
Administrative fees, network access fees and stop-loss premium	-	137,245	-	137,245
Supplies, utilities and data processing	36,955	1,423	16,876	55,254
Maintenance agreements	-	-	11,540	11,540
Non-capitalized equipment	-	-	20,070	20,070
Depreciation	-	-	31,386	31,386
Total operating expenses	<u>36,955</u>	<u>1,956,900</u>	<u>160,419</u>	<u>2,154,274</u>
Operating income (loss)	1,914	59,550	(66,998)	(5,534)
Non-operating revenues:				
Interest income	-	910	-	910
Net income (loss)	1,914	60,460	(66,998)	(4,624)
Net assets beginning of year	<u>29,101</u>	<u>1,719,335</u>	<u>276,293</u>	<u>2,024,729</u>
Net assets end of year	<u>\$ 31,015</u>	<u>1,779,795</u>	<u>209,295</u>	<u>2,020,105</u>

See accompanying independent auditor's report.

Lee County

Lee County
Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2010

	Supplies	Employee Health Plan Trust	Information Technology	Total
Cash flows from operating activities:				
Cash received from operating funds and other governmental units	\$ 37,966	1,904,784	92,737	2,035,487
Cash received from employees and others	-	110,091	684	110,775
Cash paid to suppliers for services	(35,976)	(1,947,347)	(146,797)	(2,130,120)
Net cash provided (used) by operating activities	1,990	67,528	(53,376)	16,142
Cash flows from capital and related financing activities:				
Purchase of equipment	-	-	(73,154)	(73,154)
Cash flows from investing activities:				
Interest on investments	-	20,613	-	20,613
Net increase (decrease) in cash and cash equivalents	1,990	88,141	(126,530)	(36,399)
Cash and cash equivalents beginning of year	21,146	1,963,726	252,495	2,237,367
Cash and cash equivalents end of year	\$ 23,136	2,051,867	125,965	2,200,968
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 1,914	59,550	(66,998)	(5,534)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	31,386	31,386
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	869	(1,575)	-	(706)
Increase in due from other funds	(879)	-	-	(879)
Decrease in inventories	46	-	-	46
Increase (decrease) in accounts payable	40	6,353	(19,701)	(13,308)
Increase in salaries and benefits payable	-	-	322	322
Increase in due to other funds	-	3,200	99	3,299
Increase in compensated absences	-	-	989	989
Increase in net OPEB liability	-	-	527	527
Net cash provided (used) by operating activities	\$ 1,990	67,528	(53,376)	16,142

See accompanying independent auditor's report.

Lee County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2010

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Schools
Assets					
Cash and pooled investments:					
County Treasurer	\$ -	3,430	306,514	208,497	280,167
Other County officials	276,209	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	653	1,587	-	56,189
Succeeding year	-	201,000	489,000	-	16,316,000
Accounts	1,161	-	-	-	-
Accrued interest	-	-	-	-	-
Special assessments	-	-	-	-	-
Drainage assessments	-	-	-	71,059	-
Due from other governments	-	-	75	66,275	-
Total assets	\$ 277,370	205,083	797,176	345,831	16,652,356
Liabilities					
Accounts payable	\$ -	-	487	165,800	-
Salaries and benefits payable	-	-	8,079	-	-
Due to other governments	53,858	205,083	774,289	30,031	16,652,356
Trusts payable	223,512	-	-	-	-
Compensated absences	-	-	14,321	-	-
Bank loan	-	-	-	150,000	-
Total liabilities	\$ 277,370	205,083	797,176	345,831	16,652,356

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
16,905	162,289	4,137	597,513	161	-	666,387	2,246,000
-	-	-	-	-	181,621	-	457,830
3,270	30,198	948	-	-	-	11	92,856
1,017,000	10,498,000	314,000	-	-	-	3,000	28,838,000
-	-	-	-	-	-	20,018	21,179
-	-	-	-	-	-	327	327
-	-	-	-	-	-	140,352	140,352
-	-	-	-	-	-	-	71,059
-	-	-	-	-	-	11,980	78,330
<u>1,037,175</u>	<u>10,690,487</u>	<u>319,085</u>	<u>597,513</u>	<u>161</u>	<u>181,621</u>	<u>842,075</u>	<u>31,945,933</u>
-	-	-	-	-	-	169,066	335,353
-	-	-	-	-	-	1,045	9,124
1,037,175	10,690,487	319,085	597,513	161	-	671,634	31,031,672
-	-	-	-	-	181,621	330	405,463
-	-	-	-	-	-	-	14,321
-	-	-	-	-	-	-	150,000
<u>1,037,175</u>	<u>10,690,487</u>	<u>319,085</u>	<u>597,513</u>	<u>161</u>	<u>181,621</u>	<u>842,075</u>	<u>31,945,933</u>

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

Year ended June 30, 2010

Assets and Liabilities	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Solid Waste Debt Service
Balances beginning of year	\$ 192,386	198,301	683,054	841,630	5,822
Additions:					
Property and other county tax	-	200,390	488,003	-	-
E911 surcharges	-	-	-	-	-
State tax credits	-	9,233	20,666	-	-
Drivers license fees	-	-	-	-	-
Office fees and collections	726,953	-	329	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	152,494	-
Trusts	1,640,973	-	-	-	-
Miscellaneous	-	-	195	328,526	-
Total additions	<u>2,367,926</u>	<u>209,623</u>	<u>509,193</u>	<u>481,020</u>	<u>-</u>
Deductions:					
Agency remittances:					
To other funds	450,993	-	-	-	-
To other governments	246,242	202,841	395,071	976,819	5,822
Trusts paid out	1,585,707	-	-	-	-
Total deductions	<u>2,282,942</u>	<u>202,841</u>	<u>395,071</u>	<u>976,819</u>	<u>5,822</u>
Balances end of year	<u>\$ 277,370</u>	<u>205,083</u>	<u>797,176</u>	<u>345,831</u>	<u>-</u>

See accompanying independent auditor's report.

Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
15,720,381	990,207	9,766,442	305,986	591,184	161	185,843	626,793	30,108,190
16,357,179	1,013,423	10,661,642	301,257	-	-	-	3,581	29,025,475
-	-	-	-	-	-	-	100,025	100,025
725,013	45,501	333,322	15,402	-	-	-	208	1,149,345
-	-	-	-	-	128,202	-	-	128,202
-	-	-	-	-	-	-	15,330	742,612
-	-	-	-	7,591,948	-	-	-	7,591,948
-	-	-	-	-	-	-	78,975	231,469
-	-	-	-	-	-	1,011,761	904,023	3,556,757
-	-	-	-	-	-	-	1,221,746	1,550,467
17,082,192	1,058,924	10,994,964	316,659	7,591,948	128,202	1,011,761	2,323,888	44,076,300
-	-	-	-	279,312	64,288	-	-	794,593
16,150,217	1,011,956	10,070,919	303,560	7,306,307	63,914	-	1,205,559	37,939,227
-	-	-	-	-	-	1,015,983	903,047	3,504,737
16,150,217	1,011,956	10,070,919	303,560	7,585,619	128,202	1,015,983	2,108,606	42,238,557
16,652,356	1,037,175	10,690,487	319,085	597,513	161	181,621	842,075	31,945,933

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

For the Last Ten Years

	2010	2009	2008	2007
Revenues:				
Property and other county tax	\$ 9,599,284	9,329,877	9,040,272	9,320,366
Local option sales tax	1,614,653	1,444,024	1,448,841	1,425,915
Tax increment financing	-	-	-	393,163
Interest and penalty on property tax	143,078	135,727	132,804	270,733
Intergovernmental	9,143,676	9,684,756	9,758,681	8,719,573
Licenses and permits	86,269	82,522	72,023	55,974
Charges for service	867,688	899,956	934,639	873,083
Use of money and property	326,842	482,356	494,545	471,460
Miscellaneous	303,476	314,528	240,354	494,190
Total	\$ 22,084,966	22,373,746	22,122,159	22,024,457
Expenditures:				
Operating:				
Public safety and legal services	\$ 3,888,632	3,689,993	3,618,670	3,512,938
Physical health and social services	3,817,068	3,913,476	3,535,142	3,275,224
Mental health	4,327,187	4,584,834	4,732,019	4,662,962
County environment and education	1,493,459	1,405,654	1,537,120	1,617,237
Roads and transportation	3,790,575	3,763,046	4,000,157	3,862,651
Governmental services to residents	893,551	961,591	916,840	878,334
Administration	2,216,598	2,036,986	2,203,781	1,912,371
Non-program	103,361	261,564	4,465,490	16,000
Debt service	747,089	736,339	90,769	416,396
Capital projects	2,199,820	3,865,711	774,443	603,521
Total	\$ 23,477,340	25,219,194	25,874,431	20,757,634

See accompanying independent auditor's report.

Modified Accrual Basis						
2006	2005	2004	2003	2002	2001	
9,344,253	6,717,193	7,541,799	7,365,541	7,207,279	6,881,868	
1,422,521	1,335,189	1,208,235	1,276,916	1,225,989	1,101,734	
750,066	693,545	-	-	-	573,982	
136,627	119,478	135,959	139,706	150,239	123,622	
8,732,583	7,459,664	7,962,245	8,783,384	8,261,606	7,525,424	
62,265	53,283	61,716	77,062	71,271	91,232	
892,849	822,513	855,211	768,099	880,739	802,788	
364,782	298,128	279,467	258,595	388,840	588,654	
1,123,788	1,962,381	1,987,823	2,588,161	1,673,160	1,457,648	
22,829,734	19,461,374	20,032,455	21,257,464	19,859,123	19,146,952	
3,332,940	3,105,607	3,049,182	2,773,197	2,722,325	2,531,644	
3,134,004	3,385,130	3,514,564	3,767,970	3,630,793	3,426,169	
4,396,349	4,741,619	4,070,197	5,825,118	4,734,145	4,099,546	
1,675,269	1,625,156	1,608,790	1,219,746	1,072,142	897,378	
3,928,318	3,897,439	3,578,306	3,441,171	3,576,503	3,225,883	
1,144,205	902,033	853,197	812,745	788,302	743,819	
1,842,355	1,816,882	1,695,306	2,263,147	2,051,982	2,306,705	
-	-	-	-	-	100,000	
1,373,528	2,461,854	1,438,510	1,428,737	1,427,498	1,577,169	
361,224	591,036	611,245	770,797	275,207	577,356	
21,188,192	22,526,756	20,419,297	22,302,628	20,278,897	19,485,669	

Schedule 9

Lee County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Public Safety Partnership and Community Policing Grants	16.710	2008CKWX0855	\$ 19,346
U.S. Department of Labor:			
ARRA - Employee Benefits Security Administration (EBSA)	17.151		3,680
Total direct			<u>23,026</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		<u>26,579</u>
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	04-WS-052	<u>75,841</u>
U.S. Wetlands Conservation Funds:			
Iowa Department of Natural Resources:			
Wetlands Grants	15.623		<u>45,000</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	SB-IA-C056(73)--2T-56	<u>10,728</u>
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 08-04 Task 19	11,139
State and Community Highway Safety	20.600	PAP 09-04 Task 19	2,884
			<u>14,023</u>
U.S. Department of Education:			
Iowa Department of Public Health:			
ARRA - Special Education - Grants for Infants and Families, Recovery Act	84.393A	5880MHI01	<u>1,625</u>
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	5880PHM07	36,660
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	5880DH06	12,000
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	5880CO56	7,564
Iowa Treasurer of State:			
ARRA - State Fiscal Stabilization Fund - Government Services Recovery Act	84.397	S397A090016A	<u>28,861</u>
			<u>85,085</u>
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Des Moines County Public Health:			
Public Health Emergency Preparedness	93.069	BT56 Lee	20,947
Public Health Emergency Preparedness	93.069	56BT Lee County	107,097
			<u>128,044</u>
State Capacity Building	93.240	5880HH02	<u>4,212</u>
Immunization Grants	93.268	5889I447	<u>15,499</u>

Lee County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5889OB11	18,937
ARRA - Immunization Grants	93.712	5880I447	1,127
ARRA - Infant and Toddler Quality Child Care Program	93.713		6,270
Maternal and Child Health Services Block Grant to the States	93.994	5888MH15	24,272
Maternal and Child Health Services Block Grant to the States	93.994	5889MH15	41,876
			66,148
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		13,080
Refugee and Entrant Assistance - State Administered Programs	93.566		74
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		6,946
Foster Care - Title IV-E	93.658		14,132
Adoption Assistance	93.659		3,538
Iowa Department of Public Health:			
Children's Health Insurance Program	93.767		9,340
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Children's Health Insurance Program	93.767		158
			9,498
Medical Assistance Program	93.778		29,906
Social Services Block Grant	93.667		13,920
Social Services Block Grant	93.667		197,234
			211,154
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1763-DR-IA	24,875
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1928-DR-IA	22,056
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1930-DR-IA	17,873
			64,804
Emergency Management Performance Grants	97.042		21,323
Total indirect			873,573
Total			\$ 896,599

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Lee 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.

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on 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 Lee County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lee County, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated March 14, 2011. Our report included a reference to other auditors. Except as noted in the Independent Auditor's Report, 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. Other auditors audited the financial statements of the Lincoln Ridge Limited Partnership, a blended component unit, as described in our report on Lee County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters reported on separately by the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lee County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lee County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lee County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-10 through II-H-10 to be significant deficiencies.

Compliance and Other Matters

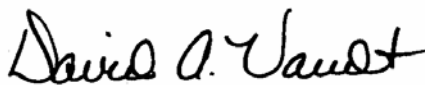
As part of obtaining reasonable assurance about whether Lee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect 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, 2010 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.

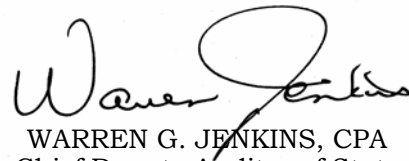
Lee County's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the County's responses, we did not audit Lee County's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lee County and other parties to whom Lee 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 Lee 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

March 14, 2011

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

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Officials of Lee County:

Compliance

We have audited Lee County, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Lee County's major federal programs for the year ended June 30, 2010. Lee 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 Lee County's management. Our responsibility is to express an opinion on Lee 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 Lee 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 Lee County's compliance with those requirements.

In our opinion, Lee County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

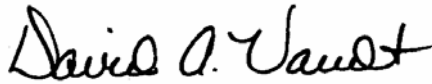
Internal Control Over Compliance

The management of Lee 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 Lee 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lee County's internal control over compliance.

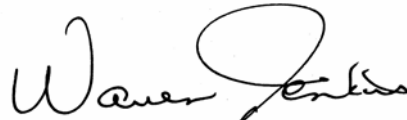
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lee County and other parties to whom Lee 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

March 14, 2011

Lee County
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
 - CFDA Number 93.069 – Public Health Emergency Preparedness
 - CFDA Number 93.667 – Social Services Block Grant
 - CFDA Number 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lee County did not qualify as a low-risk auditee.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties – During our review of the internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. The following weaknesses in the offices identified were noted for which no compensating controls exist:

Treasurer's Office – The same individual who prepares the summary of delinquent tax also performs the year end reconciliation of delinquent tax. The reconciliation is not reviewed and initialed by an independent person. Also, the same individual is responsible for the detailed record keeping and custody of investments. No independent review of investment records or inspection of investments is done. In addition, an initial listing of receipts is not prepared by an independent person, even on a test basis.

Recorder's Office – The individual who prepares monthly bank reconciliations for North Lee is, at times, responsible for handling and recording receipts. This individual also prepares and signs checks. In addition, bank reconciliations are not always reviewed by an independent person. Mail is opened by employees who have access to accounting records. Voided receipts on cash register tapes are not reviewed for propriety.

Sheriff's Office – Generally, one individual in the Sheriff's office may have control over receipts, deposits and posting to inmate ledgers for the Commissary account. An independent person does not compare amounts deposited to the receipt records. Bank reconciliations are not always reviewed by an independent person. Also, an initial listing of receipts is not prepared by an independent person, even on a test basis.

Conservation – There is no initial listing of cash receipts.

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

Responses:

County Treasurer – We will do our best to find an “independent person” to review all reconciliations of taxes, record keeping and investments.

County Recorder – We will do what we can with limited staff.

County Sheriff – My administrative assistants each have an assigned area of North or South Lee County to conduct business. There are computerized records of the receipts, transactions, reconciliations and reports. They advised me that once their deposit is prepared, the other administrative assistant can compare records.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

I have access to that deposit record for review prior to making that deposit. We have limited staff, but will comply with the recommendation to the best of our ability.

Conservation – The Conservation Board will provide review and listing of cash receipts by the person who initially receives the cash receipts. Also, the receipts will be reviewed and initialed by the Director or another member of the staff.

Conclusions – Responses accepted.

- II-B-10 Capital Assets – The County Auditor’s Office previously maintained a capital asset listing accounting for all assets, including those items below capitalization thresholds. This listing was maintained for internal control and insurance purposes. During the year ended June 30, 2010, the County did not update the listing for additions or deletions and the listing was not distributed to each department to review for accuracy.

Recommendation – The capital asset listing should be updated for changes. Annually, the listing should be compared to actual assets to ensure its accuracy.

Response – The County Auditor’s Office has attempted to update the capital asset listing during the year. Updated reports along with a verification letter were sent to all departments for approval. We received a few reports back from department heads, but not all. We will resend reports out next year along with a letter stressing the importance of returning the verification letter with any corrections that need to be made.

Conclusion – Response accepted.

- II-C-10 County Sheriff – The Sheriff’s Office did not prepare a year-to-date spreadsheet of receipts and disbursements until requested for audit purposes. The information in the spreadsheet was incorrect and the year-to-date receipts and disbursements did not reconcile to the beginning and ending book balances or to the bank reconciliation. Bank reconciliations are prepared each month and are reconciled with the book balance. However, the book balance is not reconciled with the fees owed to the County, State and trusts on hand at the end of each month.

Also, the Sheriff’s office does not print a listing of inmate trust balances at the end of each month. Inmate trust balances are included in the commissary bank account and are not deducted from the profits on the commissary bank account to determine how much money should be paid to the County Treasurer each month. Commissary profits of approximately \$11,592 are on hand at June 30, 2010.

Recommendation – The Sheriff’s Office should prepare a year-to-date spreadsheet of receipts and disbursements which should reconcile to the beginning and ending balances and to the bank reconciliation. The book balance should be reconciled with the fees owed to the County, State and trusts on hand at the end of each month.

Also, commissary profit should be paid to the County Treasurer each month.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Response – Stellar Tellar is a professional, computer based commissary system. The system automatically generates a monthly check to be deposited with the County Treasurer. The Jail Administrator prints a monthly report of the balance of each inmate account. All of these records will be reviewed monthly by the jail administrator, an administrative assistant and the County Sheriff prior to deposit of funds.

Conclusion – Response acknowledged. However, the Sheriff's Office should prepare a year-to-date spreadsheet of receipts and disbursements which should reconcile to the beginning and ending balances and to the bank reconciliation. Also, commissary profit should be paid to the County Treasurer each month.

II-D-10 Protective Payee Operations – Lee County has been designated “protective payee” by the Social Security Administration, the Iowa Department of Human Services and/or the courts for approximately 120 clients who need assistance in managing their day to day finances. Checks written from payee accounts are prepared, approved and signed by the same person.

Recommendation – The County should develop procedures to ensure checks are not signed by the same person who prepared them.

Response – This is an ongoing issue and not an achievable business process because of the limited number of individuals involved in providing payee services and geographic location of those individuals. There have been processes implemented so to ensure propriety in management. The first process is another individual than the preparer handles deposits to individual accounts. (Note that the Lee County Protective Payee process is to have payee funds direct deposited into their respective account straight from Social Security.) There are check stubs maintained with individual's signatures for receipt of personal needs checks that individuals pick up, all other checks are mailed directly to the individual per request. Reconciliation sheets are reviewed and signed off on by persons other than the preparers. Additionally, there is administrative sign off for monthly reconciliations/claims processing method. And finally, the front and back of all checks are included with the bank statements to ensure proper procedure and accountability. This far surpasses the general accounting practices required by Social Security of payees. Social Security also completes an annual audit of the accounts that Lee County maintains as an additional measure of accountability.

Conclusion – Response acknowledged. However, procedure should be developed to ensure checks are not signed by the same person who prepares them.

II-E-10 Conservation Foundation – Three Rivers Conservation Foundation, a component unit of Lee County, receives donations to fund various conservation projects within the County. The Foundation did not prepare annual financial statements. Only monthly financial statements were provided. The activity from the monthly financial statements did not reconcile to the ending balance on the year end balance sheet. In addition, monthly bank reconciliations were not prepared and the Foundation did not obtain images of both sides of canceled checks with the bank statements. These matters were resolved for audit purposes.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation – The Foundation should prepare monthly bank reconciliations to ensure the monthly balance sheets and income statements reconcile to its bank and investment statements. Also, the Foundation should prepare annual financial statements. The bank reconciliations should be reviewed and initialed by an independent person. In addition, the Foundation should obtain images of the front and back of canceled checks as required by Chapter 554D.114(5) of the Code of Iowa.

Response – The Foundation is now doing monthly bank reconciliations and will continue to do so with the Foundation’s account providing an independent review. The Foundation has also begun receiving copies of the front and back of canceled checks as required by Code. Finally the Foundation will prepare and annual financial statements.

Conclusion – Response accepted.

II-F-10 Information Systems Controls – The County employs a local area network and the software does not prevent an employee from reusing old passwords.

Recommendation – The software should be set up to ensure multiple generations of passwords cannot be reused.

Response – Currently users are required to go through ten passwords before they can reuse a password.

Conclusion – Response accepted.

II-G-10 Timesheets – The Sheriff’s Office and the Public Health Department maintain their payroll records and they do not follow the County policy regarding accrued vacation limits. Also, the County Sheriff’s Office does not communicate the amount of leave taken by the employees.

Recommendation – The County Sheriff’s Office and the Public Health Department should follow the County’s policy.

Response – Currently Lee County has set reasonable ceilings for leave amounts. The Lee County Sheriff’s union settled to pay out excessive vacation time to employees in order to bring their vacation time down to the maximum.

Conclusion – Response accepted.

II-H-10 Conservation Board – Conservation Board receipts are not reconciled with the County Treasurer’s miscellaneous receipts.

Recommendation – Conservation Board receipts should be reconciled with the County Treasurer’s miscellaneous receipts.

Response – The Conservation Board will prepare a reconciliation of conservation receipts with the County Treasurer’s miscellaneous receipts from this point forward.

Conclusion – Response accepted.

Lee County
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

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

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted. Disbursements exceeded the amount budgeted in the nonprogram function before the February 23, 2010 budget amendment was adopted.

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

Response – The County will amend in accordance with Chapter 331.435 of the Code of Iowa before disbursements will be allowed to exceed the budget.

Conclusion – Response accepted.

IV-B-10 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-10 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-D-10 Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ernie Steffensmeier, Assistant County Engineer, brother owns Steffensmeier Welding	Welding services	\$ 3,012
Tammy Wilson, Financial Director of Public Health, Husband is a shareholder in Agrineed Inc.	Supplies and maintenance	2,239
Nikki Sugars, Benefits Clerk, Husband hired to replace E911 signs	Replacing signs	1,590

In accordance with Chapter 331.342(10) of the Code of Iowa, the above transactions may represent a conflict of interest.

Recommendation – The County should consult legal counsel to determine the disposition of this matter.

Response – Each department will be responsible for bidding out the items purchased in order to show that there is not favoritism to a vendor. E911 sign replacements are only done by this individual for the Wever Fire Department.

Conclusion – Response acknowledged. However, the County should consult legal counsel concerning the E911 signs.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- IV-E-10 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be periodically reviewed to ensure the coverage is adequate for current operations.
- IV-F-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-10 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-10 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-10 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, 2010 for the County Extension Office did not exceed the amount budgeted.

Lee County

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Brian R. Brustkern, CPA, Senior Auditor II
Scott P. Boisen, Senior Auditor II
Adam D. Steffensmeier, Staff Auditor
Tracey L. Gerrish, Staff Auditor
Kristin M. Ockenfels, Staff Auditor
Gabriel M. Stafford, CPA, Assistant Auditor
Ryan A. Yeager, 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