



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE June 2, 2004

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

The County has implemented new reporting standards for the year ended June 30, 2003, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$34,064,118 for the year ended June 30, 2003, which included \$2,850,708 in tax credits from the state. The County forwarded \$25,995,198 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$8,068,920 of the local tax revenue to finance County operations, a 5 percent increase from the prior year. Other revenues included charges for service of \$2,828,736, operating grants and contributions of \$6,264,241, capital grants and contributions of \$984,181, local option sales tax of \$1,276,916, unrestricted investment earnings of \$222,910, sale of low income housing tax credits of \$987,822, supplemental debt service payments for tax increment urban renewal revenue bonds of \$1,423,767 and other general revenues of \$634,889.

Expenses for County operations totaled \$20,324,744, and included \$4,641,949 for roads and transportation, \$3,926,049 for mental health and \$3,812,168 for physical health and social services.

A copy of the audit report is available for review in the Office of Auditor of State and the County Auditor's office.

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LEE COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2003

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Lee County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2003)		
Matt Mohrfeld	Board of Supervisors	Jan 2003
Tracy R. Vance	Board of Supervisors	Jan 2003
Matt Pflug	Board of Supervisors	Jan 2005
Anne M. Pedersen	County Auditor	Jan 2005
Mary C. Hoenig	County Treasurer	Jan 2003
Larry J. Holtkamp	County Recorder	Jan 2003
David L. Ireland	County Sheriff	Jan 2005
Michael P. Short	County Attorney	Jan 2003
Janice C. Calvert	County Assessor	Jan 2004
(After January 2003)		
Matt Pflug	Board of Supervisors	Jan 2005
Robert J. Woodruff	Board of Supervisors	Jan 2007
Daniel J. Dunagan	Board of Supervisors	Jan 2007
Anne M. Pedersen	County Auditor	Jan 2005
Mary C. Hoenig	County Treasurer	Jan 2007
Larry J. Holtkamp	County Recorder	Jan 2007
David L. Ireland	County Sheriff	Jan 2005
Michael P. Short	County Attorney	Jan 2007
Janice C. Calvert	County Assessor	Jan 2004

Lee County



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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, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These basic 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 conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lee County at June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 14 to the financial statements, during the year ended June 30, 2003, Lee County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

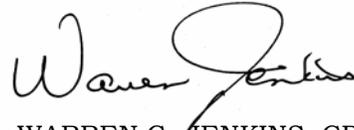
In accordance with Government Auditing Standards, we have also issued our reports dated October 31, 2003 on our consideration of Lee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 48 through 51 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed 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 three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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

October 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lee County provides this Management's Discussion and Analysis of its financial statements. This narrative overview analysis of the financial activities of the County is for the fiscal year ended June 30, 2003. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because Lee County is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

2003 FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at June 30, 2003 by \$25.8 million.
- Lee County's net assets increased \$2.6 million from FY02 to FY03.
- Governmental Fund revenue in FY03 increased \$1.4 million from FY02. Property and other county tax increased in FY03 approximately \$209,000 from FY02. The tax levy rate increased overall by \$.21858 per thousand dollars of valuation while the countywide and rural services property valuations decreased by \$15.4 million. The tax levy rates for mental health and rural services increased and the rates for the General Fund decreased.
- Governmental fund expenditures increased by 9.9%, or approximately \$2 million, from FY02 to FY03.
- The Great River Progressive Housing Corporation entered into a \$400,000 bank loan for the construction of low income housing.
- The County home, including contents, was sold for \$500,000, which resulted in a gain on the sale of \$235,000. The proceeds have been designated for future capital projects in the General Fund.
- The County issued \$3,400,000 of general obligation solid waste disposal refunding bonds, the principal of which was used to refund the 1996 solid waste bonds. The principal and interest on the new bonds is paid by the Great River Regional Waste Authority, with the County only contingently liable on the debt. Recalled and reissued Landfill bonds saved approximately \$262,000 in interest over the remaining life of the bonds. This is due to considerably lower interest rates that were available at the time of the reissue.
- The County is in the second 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. However, our future goals are to develop a more hands on approach to insure the success of this program.

USING THIS ANNUAL REPORT

The annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplementary information.

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government'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 the 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 the government (Agency Funds).
- Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information, other than MD&A, provides required budgetary comparison information.
- Other Supplementary Information provides detailed information about the non-major special revenue and the individual agency funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the County.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is, "Is the County as a whole in a better or worse financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about activities in a way that helps answer this question.

Government-wide Financial Statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus and report information about the County as a whole using accounting methods similar to those used by private-sector companies.

- 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 fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

To assess the County's overall health, additional non-financial factors, such as changes in property tax base and the condition of County buildings and roads, need to be considered.

Governmental activities are displayed 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 other non-program activities. Property tax and state or federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the County's funds, focusing on its most significant or "major" funds, not the County as a whole. Some funds are required to be established by Iowa Code or by bond covenants. The County can establish other funds to help it control and manage money for particular purposes.

The County has three (3) kinds of funds:

- Governmental funds account for most of the County's basic services. These generally focus on how cash and other financial assets that can readily be converted to cash flow in and out of those funds and the balances left at year-end that are available for spending. These governmental funds include the General Fund and Special Revenue Funds, such as Mental Health and Secondary Roads. 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 into cash. Consequently, the governmental funds statements provide a detailed short-term view of the County's general governmental operations and the basic services it provides. This information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

- The County's Internal Service Funds are accounted for as proprietary funds. These funds report activities that provide supplies and services to other County programs and activities. The County's Internal Service Funds are Central Purchasing, Information Technology and Self-funded Insurance.

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

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

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

Because the fund financial statements do not encompass the additional long-term focus of the government-wide financial statements, a summary reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements to explain the relationship or differences between the two statements.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below shows the County’s total net assets at June 30, 2003.

Net Assets of Governmental Activities (Expressed in Thousands)	
	June 30, 2003
Current and other assets	\$ 16,564
Capital assets	23,358
Total assets	39,922
Long-term liabilities	5,931
Other liabilities	8,221
Total liabilities	14,152
Net assets:	
Invested in capital assets, net of related debt	22,705
Restricted	3,666
Unrestricted	(601)
Total net assets	\$ 25,770

Lee County’s total net assets increased by approximately \$2.6 million or 11.23%. The largest portion of the County’s net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. Debt related to capital assets is liquidated with sources other than capital assets. The County’s improved financial position is also the product of many other factors. The increase in property tax and intergovernmental revenues were significant contributors to this improvement. The sale of the County home also contributed to the increase. However, this is a non-recurring special item that resulted in a gain for the current year only.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements, is at a deficit of \$601,000. The deficit unrestricted net assets results primarily from the County’s liability for tax increment urban renewal revenue bonds issued on behalf of the City of Keokuk and Roquette America, Inc. to construct a floodwall. The County does not own and, accordingly, has not recorded the assets for which this debt was issued.

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

	Year Ended June 30, 2003
Revenues:	
Program revenues:	
Charges for service	\$ 2,829
Operating grants and contributions	6,264
Capital grants and contributions	984
General revenues:	
Property tax	7,340
Penalty and interest on property tax	148
Gaming wager tax	85
State tax credits	728
Local option sales tax	1,277
Grants and contributions not restricted to specific purposes	267
Unrestricted investment earnings	223
Sale of low income housing tax credits to Heartland Properties	988
Supplemental debt service payment for tax increment urban renewal revenue bonds	1,424
Gain on disposal of capital assets	87
Other general revenues	48
Total revenues	22,692
Program expenses:	
Public safety and legal services	2,819
Physical health and social services	3,812
Mental health	3,926
County environment and education	1,254
Roads and transportation	4,642
Governmental services to residents	827
Administration	2,338
Non-program	320
Interest on long-term debt	387
Total expenses	20,325
Increase in net assets before special item	2,367
Special item:	
Gain on sale of county home	235
Increase in net assets	2,602
Net assets beginning of year, as restated	23,168
Net assets end of year	\$ 25,770

The new Uniform Chart of Accounts for Iowa Counties was effective for FY03 County financial reporting, which combined certain programs.

For FY03, Lee County increased property tax rates by \$.18 per \$1,000 of valuation in the countywide levy and \$.04 per \$1,000 of valuation for the rural levy. These increased rates were applied to the decreased countywide assessed property valuation of \$4,304,506 and rural assessed property valuation of \$11,726,068. The net effect of these changes in levies and valuations was a net increase in property tax of approximately \$158,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Lee County completed FY03, its governmental funds reported a combined fund balance of \$7,128,837, which is greater than the \$6,599,848 combined restated fund balance for FY02.

The General Fund, the operating fund for Lee County, ended FY03 with an unreserved ending balance totaling \$3.6 million, a decrease of \$344,000. Property and other county taxes decreased by approximately \$211,000 while expenditures increased approximately \$405,000.

The Mental Health Fund ended FY03 with a balance of \$448,000, an increase from FY02 of \$667,000. The increase is primarily due to a levy rate increase of \$.41989 per thousand dollars of valuation and a decrease in expenditures of \$235,000.

The Secondary Roads Fund ended FY03 with a \$2.2 million balance, compared to the prior year ending balance of \$2.1 million. While revenues in this fund increased by \$285,000, primarily in intergovernmental revenues, expenditures also increased by \$373,000. The increase in expenditures is due primarily to an increase in capital project expenditures within the Secondary Roads Fund.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the County annually adopts a budget following required public notice and hearing for all funds except the component units, Internal Service Funds and Agency Funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The County's certified budget is prepared on the cash basis.

Over the course of the year, the County restated its certified budget to include the changes resulting from the new Uniform Chart of Accounts and amended its certified budget once based on re-estimated figures obtained during the next year's budgeting process.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of FY03, the County had invested \$23.4 million, net of accumulated depreciation, 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 \$922,000 over FY02. The significant changes to capital assets during FY03 included the sale of the County home and infrastructure projects still in process at year end.

Lee County had depreciation expense of \$1.6 million for FY03 and total accumulated depreciation of \$15.2 million at June 30, 2003. Additional information about the County's capital assets is included in Note 5 to the financial statements.

Long-Term Debt

At year-end, the County had \$5.5 million in revenue bonds and other long-term debt outstanding. This represents a decrease of 16% from the prior year.

Outstanding debt decreased as a result of revenue bond payments due and paid during the year and the repayment of a construction note in its entirety. The Constitution of the State of Iowa limits the amount of general obligation debt that 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 \$51 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 BUDGETS AND RATES

Amounts budgeted for expenditure in the FY04 operating budget are approximately \$21.8 million, an increase of 9.5% from the final FY03 actual amount of \$19.9 million. The County's General Fund is expected to end FY04 with an ending fund balance of \$1.9 million compared to the June 30, 2003 actual fund balance of \$3.6 million. This is the result of the Board's efforts to spend down fund balances to finance current programs.

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.

Basic Financial Statements

Lee County
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Cash and pooled investments	\$ 8,133,690
Receivables:	
Property tax:	
Delinquent	68,613
Succeeding year	6,702,000
Interest and penalty on property tax	167,598
Accounts	35,566
Accrued interest	36,760
Due from other governments	928,637
Inventories	469,357
Prepaid expense	21,500
Capital assets (net of accumulated depreciation)	23,358,260
Total assets	39,921,981
Liabilities	
Accounts payable	682,473
Salaries and benefits payable	264,107
Due to other governments	551,450
Deferred revenue:	
Succeeding year property tax	6,702,000
Other	20,962
Long-term liabilities:	
Portion due or payable within one year:	
Tax increment urban renewal revenue bonds	1,105,000
Real estate installment contract	16,800
Bank loans	22,766
Installment purchase agreement	26,615
Compensated absences	229,420

Exhibit A

Lee County
Statement of Net Assets
June 30, 2003

	<u>Governmental Activities</u>
Liabilities (continued)	
Portion due or payable after one year:	
Tax increment urban renewal revenue bonds	3,755,000
Real estate installment contract	67,200
Bank loans	464,562
Installment purchase agreement	55,653
Compensated absences	187,970
Total liabilities	<u>14,151,978</u>
Net Assets	
Invested in capital assets, net of related debt	22,704,664
Restricted for:	
Supplemental levy purposes	657,544
Mental health purposes	464,262
Secondary roads purposes	2,057,698
Hospice care:	
Expendable	14,079
Nonexpendable	82,500
Other purposes	390,408
Unrestricted	<u>(601,152)</u>
Total net assets	<u>\$ 25,770,003</u>

See notes to financial statements.

Lee County
Statement of Activities
Year ended June 30, 2003

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Service	Operating Grants and Contributions		
Functions / Programs:					
Governmental activities:					
Public safety and legal services	\$ 2,818,530	190,343	134,953	-	(2,493,234)
Physical health and social services	3,812,168	1,700,249	780,638	-	(1,331,281)
Mental health	3,926,049	74,658	2,185,515	-	(1,665,876)
County environment and education	1,254,461	21,460	315,426	-	(917,575)
Roads and transportation	4,641,949	48,683	2,807,602	984,181	(801,483)
Governmental services to residents	827,150	464,564	100	-	(362,486)
Administration	2,338,211	28,168	31,607	-	(2,278,436)
Non-program	319,677	300,611	8,400	-	(10,666)
Interest on long-term debt	386,549	-	-	-	(386,549)
Total	\$ 20,324,744	2,828,736	6,264,241	984,181	(10,247,586)
General Revenues:					
Property and other county tax levied for general purposes					7,340,470
Penalty and interest on property tax					148,396
Gaming wager tax					85,098
State tax credits					728,450
Local option sales tax					1,276,916
Grants and contributions not restricted to specific purpose					267,001
Unrestricted investment earnings					222,910
Sale of low income housing tax credits to Heartland Properties					987,822
Supplemental debt service payments made to the County by Roquette America, Inc. for tax increment urban renewal revenue bonds					1,423,767
Gain on sale of capital assets					86,670
Miscellaneous					47,724
Total general revenues					12,615,224
Special item:					
Gain on sale of county home					234,738
Change in net assets					2,602,376
Net assets beginning of year, as restated (note 14)					23,167,627
Net assets end of year					\$ 25,770,003

See notes to financial statements.

Lee County
Balance Sheet
Governmental Funds
June 30, 2003

	Special Revenue		
	General	Mental Health	Secondary Roads
Assets			
Cash and pooled investments:			
County Treasurer	\$ 3,579,291	957,404	1,676,710
Bankers Trust escrow	-	-	-
Component unit	-	-	-
Receivables:			
Property tax:			
Delinquent	45,251	18,695	-
Succeeding year	4,373,000	1,807,000	-
Interest and penalty on property tax	167,598	-	-
Accounts	28,575	357	1,484
Accrued interest	22,361	-	-
Due from other funds	20,050	-	-
Due from other governments	527,490	1,943	187,189
Inventories	-	-	463,337
Prepaid rent	-	-	-
Total assets	\$ 8,763,616	2,785,399	2,328,720
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 241,009	123,719	99,860
Salaries and benefits payable	193,249	3,208	58,720
Due to other governments	115,928	385,492	662
Deferred revenue:			
Succeeding year property tax	4,373,000	1,807,000	-
Other	245,571	17,854	-
Total liabilities	5,168,757	2,337,273	159,242
Fund balances:			
Reserved for:			
Inventories	-	-	463,337
Prepaid rent	-	-	-
Supplemental levy purposes	686,812	-	-
Debt service	-	-	-
Hospice care	-	-	-
Building repair and maintenance	496,863	-	-
Medicaid administrative reimbursements	12,379	-	-
Unreserved:			
Designated for future capital projects	500,000	-	-
Undesignated, reported in:			
General fund	1,898,805	-	-
Special revenue funds	-	448,126	1,706,141
Total fund balances	3,594,859	448,126	2,169,478
Total liabilities and fund balances	\$ 8,763,616	2,785,399	2,328,720

See notes to financial statements.

Other Nonmajor	Total
580,547	6,793,952
14,018	14,018
190,064	190,064
4,667	68,613
522,000	6,702,000
-	167,598
4,581	34,997
2,439	24,800
-	20,050
212,015	928,637
-	463,337
21,500	21,500
<u>1,551,831</u>	<u>15,429,566</u>
5,231	469,819
6,761	261,938
49,368	551,450
522,000	6,702,000
52,097	315,522
<u>635,457</u>	<u>8,300,729</u>
-	463,337
21,500	21,500
-	686,812
24,539	24,539
82,500	82,500
-	496,863
-	12,379
-	500,000
-	1,898,805
787,835	2,942,102
<u>916,374</u>	<u>7,128,837</u>
<u>1,551,831</u>	<u>15,429,566</u>

Lee County

Lee County

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

June 30, 2003

Total governmental fund balances (page 19) \$ 7,128,837

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$38,347,047 and the accumulated depreciation is \$15,100,261. 23,246,786

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 294,560

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. 947,839

Long-term liabilities, including bonds payable, loans/contracts payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. (5,848,019)

Net assets of governmental activities (page 16) \$ 25,770,003

See notes to financial statements.

Lee County

Statement of Revenues, Expenditures and
Changes in Fund Balances

Governmental Funds

Year ended June 30, 2003

	Special Revenue		
	General	Mental Health	Secondary Roads
Revenues:			
Property and other county tax	\$ 5,123,338	2,041,578	-
Interest and penalty on property tax	139,706	-	-
Intergovernmental	3,030,331	2,343,418	2,872,504
Licenses and permits	76,582	-	480
Charges for service	760,362	-	175
Use of money and property	170,249	74,658	913
Miscellaneous	41,838	9,109	59,784
Total revenues	9,342,406	4,468,763	2,933,856
Expenditures:			
Operating:			
Public safety and legal services	2,773,197	-	-
Physical health and social services	3,741,454	-	-
Mental health	-	3,801,404	-
County environment and education	506,331	-	-
Roads and transportation	-	-	3,349,180
Governmental services to residents	810,827	-	-
Administration	2,263,147	-	-
Debt service	-	-	-
Capital projects	-	-	770,797
Total expenditures	10,094,956	3,801,404	4,119,977
Excess (deficiency) of revenues over (under) expenditures	(752,550)	667,359	(1,186,121)
Other financing sources (uses):			
Operating transfers in	-	-	1,271,039
Operating transfers out	(91,300)	-	-
Bank loan proceeds	-	-	-
Construction note proceeds	-	-	-
Total other financing sources (uses)	(91,300)	-	1,271,039
Special item:			
Proceeds from sale of county home	500,000	-	-
Net change in fund balances	(343,850)	667,359	84,918
Fund balances beginning of year, as restated (note 14)	3,938,709	(219,233)	2,051,916
Increase (decrease) in reserve for:			
Inventories	-	-	32,644
Prepaid rent	-	-	-
Fund balances end of year	\$ 3,594,859	448,126	2,169,478

See notes to financial statements.

Other Nonmajor	Total
1,477,541	8,642,457
-	139,706
537,131	8,783,384
-	77,062
7,562	768,099
12,775	258,595
2,477,430	2,588,161
4,512,439	21,257,464
-	2,773,197
26,516	3,767,970
2,023,714	5,825,118
713,415	1,219,746
91,991	3,441,171
1,918	812,745
-	2,263,147
1,428,737	1,428,737
-	770,797
4,286,291	22,302,628
226,148	(1,045,164)
400,000	1,671,039
(1,579,739)	(1,671,039)
400,000	400,000
647,509	647,509
(132,230)	1,047,509
-	500,000
93,918	502,345
828,456	6,599,848
-	32,644
(6,000)	(6,000)
916,374	7,128,837

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, 2003

Net change in fund balances - Total governmental funds (page 23) \$ 502,345

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

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

Expenditures for capital assets	\$ 1,704,160	
Capital assets contributed by the Iowa Department of Transportation	917,325	
Depreciation expense	<u>(1,553,978)</u>	1,067,507

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the proceeds from the sale increase financial resources in the governmental funds. (178,592)

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.

Property tax	13,284	
Other	<u>54,682</u>	67,966

Bond proceeds 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 repayments exceeded debt issues, as follows:

Bonds and loans issued	(1,047,509)	
Principal payments	<u>2,196,961</u>	1,149,452

Compensated absences 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. (51,828)

Prepaid rent and inventories in the governmental funds have been recorded as expenditures when paid. However, the Statement of Activities will report these items as expenses in the period the corresponding net asset is exhausted. 26,644

The Internal Service Funds are used by management to charge the costs of various services to individual departments and funds. The increase in net assets of the Internal Service Funds is included in governmental activities in the Statement of Net Assets. 18,882

Change in net assets of governmental activities (page 17) \$ 2,602,376

See notes to financial statements.

Lee County
Statement of Net Assets
Proprietary Fund
June 30, 2003

	Internal Service
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,135,656
Receivables:	
Accounts	569
Accrued interest	11,960
Inventories	6,020
Noncurrent assets:	
Capital assets, net of accumulated depreciation	111,474
Total assets	1,265,679
Liabilities	
Current liabilities:	
Accounts payable	212,654
Salaries and benefits payable	2,169
Due to other funds	20,050
Installment purchase agreement	26,615
Compensated absences	699
Non-current liabilities:	
Installment purchase agreement	55,653
Total liabilities	317,840
Net Assets	
Invested in capital assets, net of related debt	29,206
Unrestricted	918,633
Total net assets	\$ 947,839

See notes to financial statements.

Exhibit H

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

Proprietary Fund

Year ended June 30, 2003

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds and other governmental units		\$ 1,477,922
Reimbursements from employees and others		<u>210,827</u>
Total operating revenues		1,688,749
Operating expenses:		
Medical and health services	\$ 1,279,130	
Supplemental insurance	10,955	
Salaries and benefits	62,315	
Administrative fees, network access fees and stop-loss premium	202,577	
Supplies, utilities and data processing	69,243	
Maintenance agreements	14,117	
Repair and maintenance	1,775	
Miscellaneous	50,837	
Depreciation	<u>32,863</u>	<u>1,723,812</u>
Operating loss		(35,063)
Non-operating revenues:		
Interest on investments		<u>53,945</u>
Net income		18,882
Net assets beginning of year, as restated (note 14)		<u>928,957</u>
Net assets end of year		<u><u>\$ 947,839</u></u>

See notes to financial statements.

Lee County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2003

	Internal Service
Cash flows from operating activities:	
Cash received from operating funds and other governmental units	\$ 1,485,735
Cash received from employees and others	210,827
Cash payments to suppliers for services	(1,656,052)
Net cash provided by operating activities	40,510
Cash flows from capital and related financing activities:	
Purchases of capital assets	(6,539)
Cash flows from investing activities:	
Interest on investments	76,003
Net increase in cash and cash equivalents	109,974
Cash and cash equivalents beginning of year	1,025,682
Cash and cash equivalents end of year	\$ 1,135,656
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (35,063)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	32,863
Changes in asset and liabilities:	
Decrease in accounts receivable	7,816
(Increase) in inventory	(1,920)
Increase in accounts payable	36,888
Increase in salaries and benefits payable	232
(Decrease) in compensated absences	(306)
Net cash provided by operating activities	\$ 40,510

Non-cash investing, capital and financing activities:

During the year ended June 30, 2003, capital assets of \$82,268 were acquired through an installment purchase agreement.

See notes to financial statements.

Lee County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2003

Assets

Cash and pooled investments:	
County Treasurer	\$ 1,642,020
Other County officials	169,005
Receivables:	
Property tax:	
Delinquent	264,439
Succeeding year	20,749,000
Accounts	36,962
Accrued interest	730
Special assessments	55,719
Due from other governments	82,725
Total assets	<u>23,000,600</u>

Liabilities

Accounts payable	30,320
Salaries and benefits payable	10,868
Due to other governments	22,740,573
Trusts payable	201,469
Compensated absences	17,370
Total liabilities	<u>23,000,600</u>

Net assets \$ -

See notes to financial statements.

Lee County

Notes to Financial Statements

June 30, 2003

(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 that 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 that 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 multiple-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 that should be blended. 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 that 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 that 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 that should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

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 representatives to the following boards and commissions: Lee County Assessor's Conference Board, Lee County Emergency Management Commission and Lee County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Great River Regional Waste Authority Commission, South Iowa Area Crime Commission, South Iowa Area Detention Service Agency, Lee County Narcotics Task Force and Southeast Iowa Regional Planning Commission.

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 primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

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

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

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

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but 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 that are 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 and contributions that are 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 other 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 that are 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 that are 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.

Additionally, the County reports the following 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.

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements 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 installment purchase agreements 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-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary fund of the County applies 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 fund is 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, 2001 assessed property valuations; is for the tax accrual period July 1, 2002 through June 30, 2003 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2002.

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2003, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates they are not available to liquidate current obligations.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), 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
Equipment and vehicles	5,000

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

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

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

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

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

Deferred revenue on 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 and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation benefits and compensatory time for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2003. 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 financial statements and the 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 that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Per the Code of Iowa, disbursements may not legally exceed amounts budgeted by function. During the year ended June 30, 2003, disbursements exceeded the amount budgeted in the roads and transportation function.

(2) Cash and Pooled Investments

The County’s deposits in banks at June 30, 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had investments in the Automated Government Money Trust which are valued at an amortized cost of \$93,330 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2003 is as follows:

Receivable Fund	Payable Fund	Amount
General	Internal Service:	
	Employee Health Plan Trust	\$ 20,050

This balance resulted 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, 2003 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:		
Secondary Roads	General	\$ 91,300
	Special Revenue:	
	Rural services	1,179,739
Lincoln Ridge Limited Partnership	Great River Progressive Housing Corp.	400,000
Total		<u>\$ 1,671,039</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. Also, as noted in note 7, the Great River Progressive Housing Corporation borrowed \$400,000. The loan proceeds were transferred to Lincoln Ridge Limited Partnership for the construction of a low-income housing project.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2003 was as follows:

	Balance Beginning of Year (as restated, note 14)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 456,953	2,000	-	458,953
Construction in progress	469,422	2,070,305	(1,622,403)	917,324
Total capital assets not being depreciated	<u>926,375</u>	<u>2,072,305</u>	<u>(1,622,403)</u>	<u>1,376,277</u>
Capital assets being depreciated:				
Buildings	7,564,285	1,340,271	(1,439,592)	7,464,964
Improvements other than buildings	623,221	-	-	623,221
Equipment and vehicles	5,110,726	637,935	(447,618)	5,301,043
Infrastructure, road network	23,378,310	381,334	-	23,759,644
Total capital assets being depreciated	<u>36,676,542</u>	<u>2,359,540</u>	<u>(1,887,210)</u>	<u>37,148,872</u>
Less accumulated depreciation for:				
Buildings	3,630,813	203,620	(1,178,413)	2,656,020
Improvements other than buildings	505,591	19,360	-	524,951
Equipment and vehicles	2,901,994	543,422	(431,055)	3,014,361
Infrastructure, road network	8,151,118	820,439	-	8,971,557
Total accumulated depreciation	<u>15,189,516</u>	<u>1,586,841</u>	<u>(1,609,468)</u>	<u>15,166,889</u>
Total capital assets being depreciated, net	<u>21,487,026</u>	<u>772,699</u>	<u>(277,742)</u>	<u>21,981,983</u>
Governmental activities capital assets, net	<u>\$ 22,413,401</u>	<u>2,845,004</u>	<u>(1,900,145)</u>	<u>23,358,260</u>

Depreciation expense was charged to the following functions:

Governmental activities:		
Public safety and legal services		\$ 52,811
Physical health and social services		44,247
Mental health		31,776
County environment and education		27,366
Roads and transportation		1,195,211
Governmental services to residents		14,932
Administration		176,054
Non-program		44,444
		<u>44,444</u>
Total depreciation expense - governmental activities		<u>\$ 1,586,841</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>\$ 115,928</u>
Special Revenue:		
Mental Health	Services	385,492
Secondary Roads	Services	662
Rural Services	Services	49,368
		<u>435,522</u>
Total for governmental funds		<u>\$ 551,450</u>
Agency:		
County Assessor	Collections	\$ 572,202
Schools		12,803,567
Community Colleges		887,000
Corporations		7,221,544
Townships		242,663
Auto License and Use Tax		533,801
Drainage Districts		108,895
All other		370,901
		<u>370,901</u>
Total for agency funds		<u>\$ 22,740,573</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2003 is as follows:

	Tax Increment Urban Renewal Revenue Bonds	Real Estate Installment Contract	Bank Loan	Construction Note	Installment Purchase Agreement	Great River Progressive Housing Corporation Bank Loan	Compen- sated Absences	Total
Balance beginning of year, as restated (see below)	\$ 5,900,000	84,000	100,000	496,780	-	-	365,868	6,946,648
Increases	-	-	-	647,509	82,268	400,000	383,437	1,513,214
Decreases	1,040,000	-	2,188	1,144,289	-	10,484	331,915	2,528,876
Balance end of year	\$ 4,860,000	84,000	97,812	-	82,268	389,516	417,390	5,930,986
Due within one year	\$ 1,105,000	16,800	4,544	-	26,615	18,222	229,420	1,400,601

The July 1, 2002 long-term liabilities balance has been restated as follows:

Balance June 30, 2002, as previously reported	\$ 7,332,961
(a) South Iowa Area Detention Service Agency (SIADSA) capital loan notes were removed from long-term debt and reclassified as a contingent liability since the note principal and are interest paid by the SIADSA (see note 9).	(87,500)
(b) The service agreement between the County and Lincoln Ridge Limited Partnership (LRLP) was removed from long-term debt. This debt was replaced with a bank loan entered into by the Great River Progressive Housing Corporation, the General Partner of LRLP. This bank loan will be repaid by LRLP with service agreement proceeds from the County.	(400,000)
(c) <u>Compensated absences were increased due to the implementation of Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.</u>	<u>101,187</u>
Balance July 1, 2002, as restated	<u>\$ 6,946,648</u>

Tax Increment Urban Renewal Revenue Bonds

The County sold \$10,260,000 of tax increment urban renewal revenue bonds dated December 1, 1994 to construct a floodwall within the limits of the County and the City of Keokuk. The bonds are payable from the income and proceeds of the Keokuk Flood Wall Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. On November 1, 1994, the County entered into an agreement with the City of Keokuk and Roquette America, Inc. which provides for supplemental payments to be made to the County in the event taxes are insufficient to service the debt. During the year ended June 30, 2003, the County received payments from Roquette America, Inc. to pay the principal, interest and other fees due on the bonds. The bonds are not a general obligation of the County. However, the debt is subject to the constitutional debt limitation of the County.

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

Year ending June 30,	Interest Rates	Principal	Interest	Total
2004	6.20%	\$ 1,105,000	307,655	1,412,655
2005	6.30	1,175,000	239,145	1,414,145
2006	6.40	1,250,000	165,120	1,415,120
2007	6.00	1,330,000	85,120	1,415,120
Total		\$ 4,860,000	797,040	5,657,040

During the year ended June 30, 2003, principal of \$1,040,000 on these bonds was retired.

Real Estate Installment Contract

In August, 2000, the County entered into an unconditional purchase agreement with the Iowa Natural Heritage Foundation to acquire 19.53 acres of land. The County made a \$1,000 downpayment and the remaining purchase price of \$84,000 was paid by the Iowa Natural Heritage Foundation. The agreement calls for the County to repay the Iowa Natural Heritage Foundation over 5 years at an interest rate determined by the local prime rate published by Wells Fargo Bank Iowa, N.A. on the date of closing and the annual anniversary dates thereafter.

In August 2002, the real estate purchase agreement was revised. Under the revised agreement, if the County has not paid the Foundation the entire \$84,000 balance by May 31, 2003, the parties agreed to enter into a new real estate contract payable in five annual installments of \$19,415, including interest at 3.92% per annum, with the final payment due May 31, 2008. The County made no payments on the loan during the year ended June 30, 2003 and, as of June 30, 2003, the details of the revised real estate contract have not been finalized.

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. The loan bears interest at the rate of 4.5% per annum payable at maturity on October 15, 2002. 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, 2003 was \$97,812.

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

Year ending June 30,	Interest Rates	Principal	Interest	Total
2004	5.55%	\$ 4,544	5,367	9,911
2005	5.55	4,800	5,111	9,911
2006	5.55	5,070	4,841	9,911
2007	5.55	5,356	4,555	9,911
2008	5.55	5,657	4,254	9,911
2009-2013	5.55	33,434	16,121	49,555
2014-2018	5.55	38,951	5,594	44,545
Total		\$ 97,812	45,843	143,655

During the year ended June 30, 2003, the County paid principal of \$2,188 on the loan.

Construction Note

During the year ended June 30, 2002, Lincoln Ridge Limited Partnership (LRLP), a blended component unit of the County, entered into an agreement for a bank note to fund construction of specialized housing for low income persons with mental disabilities. During the year ended June 30, 2003, the note was repaid with a combination of proceeds from the sale of low-income housing tax credits to Heartland Properties of \$987,822 and a portion of the proceeds from a \$400,000 bank loan obtained by the Great River Progressive Housing Corporation.

Installment Purchase Agreement

On April 9, 2003, the County entered into an installment purchase agreement for \$82,268 to purchase a computer. The agreement bears interest at the rate of 3.02% per annum and requires quarterly payments of \$7,191, including interest, with the final payment due on June 1, 2006. The balance of the agreement at June 30, 2003 was \$82,268.

A summary of the annual installment purchase agreement principal and interest requirements to maturity is as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2004	3.02%	\$ 26,615	2,149	28,764
2005	3.02	27,415	1,349	28,764
2006	3.02	28,238	526	28,764
Total		\$ 82,268	4,024	86,292

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 the rate of 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, 2003, the GRPHC paid principal of \$10,484 and interest of \$9,071 on the loan. The balance owed on the loan at June 30, 2003 was \$389,516.

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
2004	5.41%	\$ 18,222	20,887	39,109
2005	5.41	19,278	19,831	39,109
2006	5.41	20,335	18,774	39,109
2007	5.41	21,450	17,659	39,109
2008	5.41	22,582	16,527	39,109
2009-2013	5.41	133,113	62,432	195,545
2014-2018	5.41	154,536	21,686	176,222
Total		\$ 389,516	177,796	567,312

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages are 5.37% and 8.05%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2003, 2002, and 2001 were \$329,001, \$326,716, and \$313,960, respectively, equal to the required contributions for each year.

(9) Contingent Liabilities

Solid Waste Disposal Bonds

On May 1, 1996, the County entered into a loan agreement with the Great River Regional Waste Authority to assist in financing the cost of the construction and/or acquisition of certain improvements to the Authority's existing solid waste disposal facilities. Pursuant to the loan agreement, the County issued general obligation solid waste disposal bonds totaling \$7,445,000 to repay \$6,825,000 of general obligation solid waste disposal bond anticipation, series 1993 notes, which matured on June 1, 1996, and loaned the remaining cash proceeds to the Authority. These bonds mature on June 1, 2007 and bear interest at rates ranging from 4.55% to 5% per annum. The Authority agreed to repay the loan and interest thereon and issued a solid waste disposal revenue bond in the principal amount of \$7,445,000 to the County in evidence of the Authority's obligation to repay the amounts payable.

On March 1, 2003, the County issued \$3,400,00 of general obligation solid waste disposal refunding bonds to currently refund the 1996 general obligation solid waste bond. The principal on the 1996 bonds was called on June 1, 2003 and the bonds were redeemed in their entirety by June 30, 2003.

The County is contingently liable for the 2003 general obligation solid waste disposal refunding bonds. Bond principal and interest are paid from proceeds received from the Great River Regional Waste Authority. However, the bonds are a general obligation of the County and, if the revenues of the Regional Waste Authority in future years are not adequate, a tax will be levied on all taxable property in the County. The liability for these bonds is not recorded by the County since the bonds are to be paid from other than County resources. The transactions for the bond issue are accounted for in an Agency Fund.

Details of this contingent liability at June 30, 2003 are as follows:

2003 General Obligation Solid Waste Disposal Refunding Bonds				
Year ending June 30,	Interest Rates	Principal	Interest	
2004	1.30%	\$ 820,000	59,755	
2005	1.60	850,000	49,095	
2006	1.90	855,000	35,495	
2007	2.20	875,000	19,250	
Total		\$ 3,400,000	163,595	

Detention Service Capital Loan Notes

Lee County is one of ten participating member counties in the South Iowa Area Detention Service Agency (SIADSA) capital loan note certificate agreement. Each member County issued \$230,000 of general obligation capital loan notes on May 1, 1991 to the SIADSA which secured \$2,300,000 of capital loan notes certificates issued by SIADSA.

The County is contingently liable for the capital loan notes. Note principal and interest are paid by SIADSA. However, the notes are a general obligation of the County and if the revenues of SIADSA in future years are not adequate, a tax will be levied on all taxable property in the County. The liability for these notes is not recorded by the County since the notes are to be paid from other than County resources.

Details of this contingent liability at June 30, 2003 are as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2004	6.90%	\$ 21,000	4,739	25,739
2005	7.00	22,500	3,290	25,790
2006	7.00	24,500	1,715	26,215
Total		\$ 68,000	9,744	77,744

During the year ended June 30, 2003, \$19,500 of these notes were retired by SIADSA.

(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 Public Health Department has established written guidelines for the use of these funds.

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

(11) Rural Community 2000 Program Loan

During the year ended June 30, 1991, the County was awarded a \$500,000 loan from the Iowa Department of Economic Development's Rural Community 2001 Program to construct rural water service for northern Lee County. The County subsequently received and loaned \$500,000 to the Rathbun Regional Water Association.

The Rathbun Regional Water Association loan requires 15 annual payments beginning one year after the project completion date, with three percent per annum interest on the unpaid balance. Final payment on the loan is due June 30, 2006.

The County is required to remit the proceeds of the loan repayments from the Rathbun Regional Water Association to the Iowa Department of Economic Development. The County's liability for the repayment of the loan is limited to the amount collected from the Rathbun Regional Water Association. Therefore, the liability for the loan is not recorded by the County. The outstanding balance on this loan at June 30, 2003 was \$120,217.

(12) Risk Management

Lee 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 Employee Health Plan Trust 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 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. The County records the plan assets and related liabilities of the Health Plan Trust as an Internal Service Fund. The County's contribution to the fund for the year ended June 30, 2003 was \$1,209,831.

Amounts payable from the Employee Health Plan Trust at June 30, 2003 total \$208,924, 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 \$692,491 and is reported as a designation of the Employee Health Plan Trust Fund retained earnings. 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, 2002	\$ 156,369
Incurred claims (including claims incurred but not reported as of June 30, 2003)	1,331,685
Payments on claims during the fiscal year	<u>1,279,130</u>
Unpaid claims at June 30, 2003	<u>\$ 208,924</u>

(14) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2003. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2003. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2002 resulting from the conversion to the accrual basis of accounting. The Neff Memorial Account, previously a Non-expendable Trust Fund, was reclassified as a Permanent Fund.

Beginning capital assets for governmental activities of \$17,650,125 were restated to \$22,357,871, net of accumulated depreciation of \$15,155,751. The restatement resulted from adding infrastructure assets and removing assets below the County's capitalization threshold.

In addition, the Capital Projects Fund, Capital Loan Notes Account reported in previous years was eliminated at July 1, 2002. The fund included \$15,000 held by the South Iowa Area Detention Service Agency (SIADSA) for the County. However, SIADSA will not be refunding the \$15,000 to the county since it has been or will be used for paying the indebtedness.

The effects of the accounting change and other restatements in the governmental activities are summarized below:

	<u>Total</u>
Net assets June 30, 2002, as previously reported	\$ 6,432,166
GASB Interpretation 6 adjustments	100,182
Reclassification of Permanent Fund	82,500
Elimination of Capital Projects Fund	<u>(15,000)</u>
Net assets July 1, 2002, as restated for governmental funds	6,599,848
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$15,155,751	22,357,871
Internal Service Funds	928,957
Long-term liabilities	(6,945,643)
Deferral of long-term assets	<u>226,594</u>
Net assets July 1, 2002, as restated	<u>\$ 23,167,627</u>

The Internal Service Funds net assets was increased by \$55,530 at July 1, 2002 to include capital assets (net of accumulated depreciation of \$33,765) which were previously reported in the General Fixed Assets Account Group.

	<u>Internal Service Funds</u>
Net assets June 30, 2002, as previously reported	\$ 873,427
Capital assets, net, previously reported in the General Fixed Assets Account Group	<u>55,530</u>
Net assets July 1, 2002, as restated	<u>\$ 928,957</u>

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, 2003

	Governmental Funds Actual	Less: Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 8,596,339	-	8,596,339
Interest and penalty on property tax	138,727	-	138,727
Intergovernmental	8,901,160	279,305	8,621,855
Licenses and permits	81,163	-	81,163
Charges for service	877,225	-	877,225
Use of money and property	272,787	7,792	264,995
Fines, forfeits & defaults	-	-	-
Miscellaneous	2,594,724	1,020,934	1,573,790
Total receipts	<u>21,462,125</u>	<u>1,308,031</u>	<u>20,154,094</u>
Disbursements:			
Public safety and legal services	2,759,061	-	2,759,061
Physical health and social services	3,748,025	22,422	3,725,603
Mental health	5,834,506	2,023,714	3,810,792
County environment and education	1,190,322	280,999	909,323
Roads and transportation	3,488,165	-	3,488,165
Governmental services to residents	802,802	-	802,802
Administration	2,273,221	-	2,273,221
Debt service	1,424,156	-	1,424,156
Capital projects	693,836	-	693,836
Total disbursements	<u>22,214,094</u>	<u>2,327,135</u>	<u>19,886,959</u>
Excess (deficiency) of receipts over (under) disbursements	(751,969)	(1,019,104)	267,135
Other financing sources, net	1,047,509	1,047,509	-
Special item	500,000	-	500,000
Excess (deficiency) of receipts, other financing sources and special item over (under) disbursements and other financing uses	795,540	28,405	767,135
Balance beginning of year, as restated (note 14)	<u>6,202,494</u>	<u>161,659</u>	<u>6,040,835</u>
Balance end of year	<u>\$ 6,998,034</u>	<u>190,064</u>	<u>6,807,970</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual
		Variance
8,571,644	8,582,097	14,242
33,050	126,828	11,899
7,963,224	8,406,768	215,087
78,950	77,000	4,163
808,625	743,211	134,014
498,610	446,202	(181,207)
2,200	-	-
1,583,100	6,370,167	(4,796,377)
<u>19,539,403</u>	<u>24,752,273</u>	<u>(4,598,179)</u>
2,811,928	2,886,078	127,017
3,584,623	4,105,658	380,055
3,969,826	4,063,435	252,643
933,997	1,024,681	115,358
3,453,736	3,443,691	(44,474)
848,169	869,718	66,916
2,627,745	2,590,214	316,993
1,447,095	6,190,504	4,766,348
843,400	926,362	232,526
<u>20,520,519</u>	<u>26,100,341</u>	<u>6,213,382</u>
(981,116)	(1,348,068)	1,615,203
-	501,038	1,039
-	-	-
(981,116)	(847,030)	1,614,164
<u>4,999,298</u>	<u>5,973,335</u>	<u>67,500</u>
<u>4,018,182</u>	<u>5,126,305</u>	<u>1,681,664</u>

Lee County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2003

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 21,462,125	(204,661)	21,257,464
Expenditures	22,214,094	88,534	22,302,628
Net	(751,969)	(293,195)	(1,045,164)
Other financing sources, net	1,047,509	-	1,047,509
Special item	500,000	-	500,000
Beginning fund balances, as restated (note 14)	6,202,494	397,354	6,599,848
Increase (decrease) in reserve for:			
Inventories	-	32,644	32,644
Prepaid rent	-	(6,000)	(6,000)
Ending fund balances	\$ 6,998,034	130,803	7,128,837

See accompanying independent auditor's report.

Lee County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2003

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Permanent Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$5,579,822. The budget amendment is 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, 2003, disbursements exceeded the amount budgeted in the roads and transportation function.

Lee County

Other Supplementary Information

Lee County
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	Rural Services	Resource Enhancement and Protection	County Recorder's Records Management	Keokuk Flood Wall	Great River Progressive Housing Corp
Assets					
Cash and pooled investments:					
County Treasurer	\$ 292,963	3,725	22,933	-	-
Bankers Trust escrow	-	-	-	14,018	-
Component unit	-	-	-	-	36
Receivables:					
Property tax:					
Delinquent	4,667	-	-	-	-
Succeeding year	522,000	-	-	-	-
Accounts	-	-	-	4,581	-
Accrued interest	-	-	31	-	-
Due from other governments	212,015	-	-	-	-
Prepaid rent	-	-	-	-	-
Total assets	\$ 1,031,645	3,725	22,964	18,599	36
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ 650	-	-	4,581	-
Salaries and benefits payable	2,682	-	-	-	-
Due to other governments	49,368	-	-	-	-
Deferred revenue					
Succeeding year property tax	522,000	-	-	-	-
Other	52,097	-	-	-	-
Total liabilities	626,797	-	-	4,581	-
Fund equity:					
Fund balances:					
Reserved for:					
Prepaid rent	-	-	-	-	-
Debt service	-	-	-	14,018	-
Hospice care	-	-	-	-	-
Unreserved:					
Undesignated	404,848	3,725	22,964	-	36
Total fund equity	404,848	3,725	22,964	14,018	36
Total liabilities and fund equity	\$ 1,031,645	3,725	22,964	18,599	36

See accompanying independent auditor's report.

Schedule 1

Special Revenue								Permanent	
Lincoln Ridge Limited Partnership	Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Conservation Land Acquisition Trust	Memorial Trust	Neff Memorial	Debt Service	Neff Memorial	Total
-	-	-	-	6,782	149,222	11,916	10,506	82,500	580,547
-	-	-	-	-	-	-	-	-	14,018
41,685	65,207	65,358	17,778	-	-	-	-	-	190,064
-	-	-	-	-	-	-	-	-	4,667
-	-	-	-	-	-	-	-	-	522,000
-	-	-	-	-	-	-	-	-	4,581
-	-	-	-	10	220	2,163	15	-	2,439
-	-	-	-	-	-	-	-	-	212,015
-	21,500	-	-	-	-	-	-	-	21,500
41,685	86,707	65,358	17,778	6,792	149,442	14,079	10,521	82,500	1,551,831
-	-	-	-	-	-	-	-	-	5,231
-	4,079	-	-	-	-	-	-	-	6,761
-	-	-	-	-	-	-	-	-	49,368
-	-	-	-	-	-	-	-	-	522,000
-	-	-	-	-	-	-	-	-	52,097
-	4,079	-	-	-	-	-	-	-	635,457
-	21,500	-	-	-	-	-	-	-	21,500
-	-	-	-	-	-	-	10,521	-	24,539
-	-	-	-	-	-	-	-	82,500	82,500
41,685	61,128	65,358	17,778	6,792	149,442	14,079	-	-	787,835
41,685	82,628	65,358	17,778	6,792	149,442	14,079	10,521	82,500	916,374
41,685	86,707	65,358	17,778	6,792	149,442	14,079	10,521	82,500	1,551,831

Lee County
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2003

	Rural Services	Resource Enhancement and Protection	County Recorder's Records Management	Keokuk Flood Wall	Great River Progressive Housing Corp
Revenues:					
Property and other county tax	\$ 1,477,541	-	-	-	-
Intergovernmental	257,499	327	-	-	19,555
Charges for service	-	-	7,562	-	-
Use of money and property	115	45	391	131	-
Miscellaneous	547	-	-	1,428,348	-
Total revenues	<u>1,735,702</u>	<u>372</u>	<u>7,953</u>	<u>1,428,479</u>	<u>19,555</u>
Expenditures:					
Operating:					
Physical health and social services	-	-	-	-	-
Mental health	-	-	-	-	19,564
County environment and education	430,796	-	-	-	-
Roads and transportation	91,991	-	-	-	-
Governmental services to residents	1,918	-	-	-	-
Debt service	-	-	-	1,428,737	-
Total expenditures	<u>524,705</u>	<u>-</u>	<u>-</u>	<u>1,428,737</u>	<u>19,564</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,210,997</u>	<u>372</u>	<u>7,953</u>	<u>(258)</u>	<u>(9)</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(1,179,739)	-	-	-	(400,000)
Bank loan proceeds	-	-	-	-	400,000
Construction note proceeds	-	-	-	-	-
Total other financing sources (uses)	<u>(1,179,739)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>31,258</u>	<u>372</u>	<u>7,953</u>	<u>(258)</u>	<u>(9)</u>
Fund balances beginning of year, as restated (note 14)	373,590	3,353	15,011	14,276	45
Decrease in reserve for prepaid rent	-	-	-	-	-
Fund balances end of year	<u>\$ 404,848</u>	<u>3,725</u>	<u>22,964</u>	<u>14,018</u>	<u>36</u>

See accompanying independent auditor's report.

Schedule 2

Lincoln Ridge Limited Partnership	Special Revenue							Permanent	
	Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Conservation Land Acquisition Trust	Memorial Trust	Neff Memorial	Debt Service	Neff Memorial	Total
-	-	-	-	-	-	-	-	-	1,477,541
-	219,750	-	40,000	-	-	-	-	-	537,131
-	-	-	-	-	-	-	-	-	7,562
352	4,753	843	-	152	3,087	2,670	236	-	12,775
987,872	-	32,862	200	-	27,601	-	-	-	2,477,430
988,224	224,503	33,705	40,200	152	30,688	2,670	236	-	4,512,439
-	-	-	22,422	-	4,094	-	-	-	26,516
2,004,150	-	-	-	-	-	-	-	-	2,023,714
-	242,586	40,033	-	-	-	-	-	-	713,415
-	-	-	-	-	-	-	-	-	91,991
-	-	-	-	-	-	-	-	-	1,918
-	-	-	-	-	-	-	-	-	1,428,737
2,004,150	242,586	40,033	22,422	-	4,094	-	-	-	4,286,291
(1,015,926)	(18,083)	(6,328)	17,778	152	26,594	2,670	236	-	226,148
400,000	-	-	-	-	-	-	-	-	400,000
-	-	-	-	-	-	-	-	-	(1,579,739)
-	-	-	-	-	-	-	-	-	400,000
647,509	-	-	-	-	-	-	-	-	647,509
1,047,509	-	-	-	-	-	-	-	-	(132,230)
31,583	(18,083)	(6,328)	17,778	152	26,594	2,670	236	-	93,918
10,102	106,711	71,686	-	6,640	122,848	11,409	10,285	82,500	828,456
-	(6,000)	-	-	-	-	-	-	-	(6,000)
41,685	82,628	65,358	17,778	6,792	149,442	14,079	10,521	82,500	916,374

Schedule 3

Lee County
Combining Schedule of Net Assets
Internal Service Funds
June 30, 2003

	Supplies	Employee Health Plan Trust	Information Technology	Total
Assets				
Current assets:				
Cash and pooled investments	\$ 17,743	908,938	208,975	1,135,656
Receivables:				
Accounts	2	567	-	569
Accrued interest	-	11,960	-	11,960
Inventories	6,020	-	-	6,020
Noncurrent assets:				
Capital assets, net of accumulated depreciation	-	-	111,474	111,474
Total assets	23,765	921,465	320,449	1,265,679
Liabilities and Fund Equity				
Current liabilities:				
Accounts payable	117	208,924	3,613	212,654
Salaries and benefits payable	-	-	2,169	2,169
Due to other funds	-	20,050	-	20,050
Installment purchase agreement	-	-	26,615	26,615
Compensated absences	-	-	699	699
Non-current liabilities:				
Installment purchase agreement	-	-	55,653	55,653
Total liabilities	117	228,974	88,749	317,840
Net Assets				
Invested in capital assets, net of related debt	-	-	29,206	29,206
Unrestricted	23,648	692,491	202,494	918,633
Total net assets	\$ 23,648	692,491	231,700	947,839

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, 2003

	Supplies	Employee Health Plan Trust	Information Technology	Total
Operating revenues:				
Reimbursements from operating funds and other governmental units	\$ 37,411	1,209,831	230,680	1,477,922
Reimbursements from employees and others	-	210,827	-	210,827
Total operating revenues	37,411	1,420,658	230,680	1,688,749
Operating expenses:				
Medical and health services	-	1,279,130	-	1,279,130
Supplemental insurance	-	10,955	-	10,955
Salaries and benefits	-	-	62,315	62,315
Administrative fees, network access fees and stop-loss premium	-	202,577	-	202,577
Supplies, utilities and data processing	43,908	1,044	24,291	69,243
Maintenance agreements	-	-	14,117	14,117
Repair and maintenance	-	-	1,775	1,775
Miscellaneous	-	150	50,687	50,837
Depreciation	-	-	32,863	32,863
Total operating expenses	43,908	1,493,856	186,048	1,723,812
Operating income (loss)	(6,497)	(73,198)	44,632	(35,063)
Non-operating revenues:				
Interest on investments	-	53,945	-	53,945
Net income (loss)	(6,497)	(19,253)	44,632	18,882
Net assets beginning of year, as restated (note 14)	30,145	711,744	187,068	928,957
Net assets end of year	\$ 23,648	692,491	231,700	947,839

See accompanying independent auditor's report.

Lee County

Lee County
Combining Schedule of Cash Flows
Internal Service Funds
Year ended June 30, 2003

	Supplies	Employee Health Plan Trust	Information Technology	Total
Cash flows from operating activities:				
Cash received from operating funds and other governmental units	\$ 37,408	1,217,577	230,750	1,485,735
Cash received from employees and others	-	210,827	-	210,827
Cash payments to suppliers for services	(45,783)	(1,458,526)	(151,743)	(1,656,052)
Net cash provided (used) by operating activities	(8,375)	(30,122)	79,007	40,510
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	-	(6,539)	(6,539)
Cash flows from investing activities:				
Interest on investments	-	76,003	-	76,003
Net increase (decrease) in cash and cash equivalents	(8,375)	45,881	72,468	109,974
Cash and cash equivalents beginning of year	26,118	863,057	136,507	1,025,682
Cash and cash equivalents end of year	\$ 17,743	908,938	208,975	1,135,656
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (6,497)	(73,198)	44,632	(35,063)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	32,863	32,863
Changes in assets and liabilities:				
Decrease in accounts receivable	-	7,746	70	7,816
(Increase) in inventories	(1,920)	-	-	(1,920)
Increase in accounts payable	42	35,330	1,516	36,888
Increase in salaries and benefits payable	-	-	232	232
(Decrease) in compensated absences	-	-	(306)	(306)
Net cash provided (used) by operating activities	\$ (8,375)	(30,122)	79,007	40,510

Non-cash investing, capital and financing activities:

During the year ended June 30, 2003, capital assets of \$82,268 were acquired by the Information Technology Fund through an installment purchase agreement.

See accompanying independent auditor's report.

Lee County
 Combining Schedule of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2003

	County Offices			
	County Attorney	County Auditor	County Recorder	County Sheriff
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	20	-	-
Other County officials	700	97,434	19,903	50,968
Receivables:				
Property tax:				
Delinquent	-	-	-	-
Succeeding year	-	-	-	-
Accounts	-	-	195	-
Accrued interest	-	559	-	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Total assets	\$ 700	98,013	20,098	50,968
Liabilities				
Accounts payable	\$ -	-	-	-
Salaries and benefits payable	-	-	-	-
Due to other governments	700	50	20,098	407
Trusts payable	-	97,963	-	50,561
Compensated absences	-	-	-	-
Total liabilities	\$ 700	98,013	20,098	50,968

Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corpor- ations	Townships	Auto License and Use Tax
3,782	335,643	334,410	24,925	183,831	6,344	533,801
-	-	-	-	-	-	-
1,442	2,698	139,157	9,075	109,713	2,319	-
139,000	261,000	12,330,000	853,000	6,928,000	234,000	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
144,224	599,341	12,803,567	887,000	7,221,544	242,663	533,801
-	115	-	-	-	-	-
-	9,654	-	-	-	-	-
144,224	572,202	12,803,567	887,000	7,221,544	242,663	533,801
-	-	-	-	-	-	-
-	17,370	-	-	-	-	-
144,224	599,341	12,803,567	887,000	7,221,544	242,663	533,801

Lee County
Combining Schedule of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2003

	Brucellosis and Tuberculosis Eradication	Drainage Districts	Emergency Management Services	Solid Waste Debt Service
Assets				
Cash and pooled investments:				
County Treasurer	2,081	24,883	41,688	8,822
Other County officials	-	-	-	-
Receivables:				
Property tax:				
Delinquent	35	-	-	-
Succeeding year	3,000	-	-	-
Accounts	-	20,250	-	-
Accrued interest	-	-	63	-
Special assessments	-	-	-	-
Due from other governments	-	82,725	-	-
Total assets	5,116	127,858	41,751	8,822
Liabilities				
Accounts payable	-	18,963	210	-
Salaries and benefits payable	-	-	1,214	-
Due to other governments	5,116	108,895	40,327	8,822
Trusts payable	-	-	-	-
Compensated absences	-	-	-	-
Total liabilities	5,116	127,858	41,751	8,822

See accompanying independent auditor's report.

City Special Assessments	Treasurer's Trust	Tax Sale Redemption	E911 Surcharge	E911 Contribution	Sanitary Sewer	Total
15,810	951	51,994	3,526	69,486	23	1,642,020
-	-	-	-	-	-	169,005
-	-	-	-	-	-	264,439
-	-	-	-	-	1,000	20,749,000
-	-	-	16,478	39	-	36,962
-	-	-	5	103	-	730
55,719	-	-	-	-	-	55,719
-	-	-	-	-	-	82,725
71,529	951	51,994	20,009	69,628	1,023	23,000,600
-	-	-	11,032	-	-	30,320
-	-	-	-	-	-	10,868
71,529	-	-	8,977	69,628	1,023	22,740,573
-	951	51,994	-	-	-	201,469
-	-	-	-	-	-	17,370
71,529	951	51,994	20,009	69,628	1,023	23,000,600

Lee County

Combining Schedule of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year ended June 30, 2003

	County Offices			
	County Attorney	County Auditor	County Recorder	County Sheriff
Assets and Liabilities				
Balances beginning of year	\$ 700	98,011	56,944	113,384
Additions:				
Property and other county tax	-	-	-	-
E911 surcharge	-	-	-	-
State tax credits	-	-	-	-
Office fees and collections	-	3,000	373,063	220,419
Auto licenses, use tax and postage	-	-	-	-
Drivers license fees	-	-	-	-
Assessments	-	-	-	-
Trusts	-	5,609	-	660,061
Miscellaneous	-	-	-	-
Total additions	-	8,609	373,063	880,480
Deductions:				
Agency remittances:				
To other funds	-	3,000	247,585	271,480
To other governments	-	-	162,264	553
Trusts paid out	-	5,607	60	670,863
Total deductions	-	8,607	409,909	942,896
Balances end of year	\$ 700	98,013	20,098	50,968

Agricultural Extension Education	County Assessor	Schools	Community Colleges	Corpor- ations	Townships	Auto License and Use Tax
144,042	798,442	12,697,400	944,539	7,025,080	245,469	500,032
168,203	308,597	14,132,207	970,922	8,025,788	262,347	-
-	-	-	-	-	-	-
2,586	45,135	1,266,887	92,704	705,521	9,257	-
-	-	-	-	-	-	-
-	-	-	-	-	-	6,617,494
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	3,262	-	-	-	-	-
170,789	356,994	15,399,094	1,063,626	8,731,309	271,604	6,617,494
-	-	-	-	-	-	227,295
170,607	556,095	15,292,927	1,121,165	8,534,845	274,410	6,356,430
-	-	-	-	-	-	-
170,607	556,095	15,292,927	1,121,165	8,534,845	274,410	6,583,725
144,224	599,341	12,803,567	887,000	7,221,544	242,663	533,801

Lee County
 Combining Schedule of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year ended June 30, 2003

	Brucellosis and Tuberculosis Eradication	Drainage Districts	Drivers License Trust	Emergency Management Services
Assets and Liabilities				
Balances beginning of year	3,117	672,457	-	41,271
Additions:				
Property and other county tax	4,131	-	-	-
E911 surcharge	-	-	-	-
State tax credits	63	-	-	-
Office fees and collections	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Drivers license fees	-	-	153,452	-
Assessments	-	92,027	-	-
Trusts	-	-	-	-
Miscellaneous	-	803,564	-	40,693
Total additions	4,194	895,591	153,452	40,693
Deductions:				
Agency remittances:				
To other funds	-	-	39,964	-
To other governments	2,195	1,440,190	113,488	40,213
Trusts paid out	-	-	-	-
Total deductions	2,195	1,440,190	153,452	40,213
Balances end of year	5,116	127,858	-	41,751

See accompanying independent auditor's report.

Solid Waste Debt Service	City Special Assessments	Treasurer's Trust	Tax Sale Redemption	E911 Surcharge	E911 Contribution	Sanitary Sewer	Total
-	37,283	10,026	44,386	49,090	28,049	1,018	23,510,740
-	-	-	-	-	-	745	23,872,940
-	-	-	-	102,344	-	-	102,344
-	-	-	-	-	-	105	2,122,258
-	-	-	-	-	-	-	596,482
-	-	-	-	-	-	-	6,617,494
-	-	-	-	-	-	-	153,452
-	59,699	-	-	-	-	-	151,726
-	-	1,231	705,531	-	-	-	1,372,432
4,349,108	-	-	-	1,087	41,579	-	5,239,293
4,349,108	59,699	1,231	705,531	103,431	41,579	850	40,228,421
-	-	-	-	40,000	-	-	829,324
4,340,286	25,453	-	-	92,512	-	845	38,524,478
-	-	10,306	697,923	-	-	-	1,384,759
4,340,286	25,453	10,306	697,923	132,512	-	845	40,738,561
8,822	71,529	951	51,994	20,009	69,628	1,023	23,000,600

Schedule 8

Lee County

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

For the Last Four Years

	Modified Accrual Basis			
	2003	2002	2001	2000
Revenues:				
Property and other county tax	\$ 8,642,457	8,433,268	8,557,584	8,044,243
Interest and penalty on property tax	139,706	150,239	123,622	110,114
Intergovernmental	8,783,384	8,261,606	7,525,424	7,127,774
Licenses and permits	77,062	71,271	91,232	105,994
Charges for service	768,099	880,739	802,788	771,701
Use of money and property	258,595	388,840	588,654	575,235
Fines, forfeitures and defaults	-	1,410	4,834	1,416
Miscellaneous	2,588,161	1,671,750	1,452,814	1,776,699
Total	\$ 21,257,464	19,859,123	19,146,952	18,513,176
Expenditures:				
Operating:				
Public safety and legal services	\$ 2,773,197	2,722,325	2,531,644	2,510,998
Physical health and social services	3,767,970	3,630,793	3,426,169	3,044,325
Mental health	5,825,118	4,734,145	4,099,546	4,280,737
County environment and education	1,219,746	1,072,142	897,378	824,012
Roads and transportation	3,441,171	3,576,503	3,225,883	3,071,800
Governmental services to residents	812,745	788,302	743,819	650,298
Administration	2,263,147	2,051,982	2,306,705	2,464,100
Non-program	-	-	100,000	-
Debt service	1,428,737	1,427,498	1,577,169	1,547,987
Capital projects	770,797	275,207	577,356	138,207
Total	\$ 22,302,628	20,278,897	19,485,669	18,532,464

See accompanying independent auditor's report.

Lee County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative			
Reimbursements:			
State Administrative Matching Grants for			
Food Stamp Program	10.561		\$ 14,236
U.S. Department of Justice:			
Governor's Office on Drug Control Policy:			
City of Keokuk:			
Byrne Formula Grant Program	16.579		37,979
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS-C056(40)--8J-56	66,856
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 02-04 Task 22	3,112
State and Community Highway Safety	20.600	PAP 03-04 Task 22	5,325
State and Community Highway Safety	20.600	PAP 02-164 Task 43	5,723
			<u>14,160</u>
Environmental Protection Agency:			
Office of Air and Radiation:			
Linn County Public Health:			
State Indoor Radon Grants	66.032		2,800
Federal Emergency Management Agency:			
Iowa Department Public Defense:			
Emergency Management Performance Grants	83.552		15,980
Supplemental Emergency			
Management Performance Grants	83.562		1,898
U.S. Department of Education:			
Iowa Department of Education:			
Rehabilitation Services - Vocational			
Rehabilitation Grants to States	84.126	02-CPSE-22	6,993
Rehabilitation Services - Vocational			
Rehabilitation Grants to States	84.126	03-CPSE-22	11,655
			<u>18,648</u>
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Childhood Lead Poisoning Prevention			
Projects - State and Local Childhood Lead			
Poisoning Prevention and Surveillance of			
Blood Lead Levels in Children	93.197	5883LP08	8,378
Consolidated Knowledge Development and			
Application (KD&A) Program	93.230	5883IP16	23,836

Schedule 9

Lee County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

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:			
Immunization Grants	93.268	5883I453	2,486
Davis County Hospital:			
Immunization Grants	93.268	5889I424	2,620
			5,106
Centers for Disease Control and Prevention -			
Investigations and Technical Assistance	93.283	5883EHC7	7,841
Centers for Disease Control and Prevention -			
Investigations and Technical Assistance	93.283	5883BT58	6,514
Des Moines County Public Health:			
Centers for Disease Control and Prevention -			
Investigations and Technical Assistance	93.283	5883BT58	10,895
			25,250
Maternal and Child Health Services Block Grant			
to the States	93.994	5882MC05	8,541
Maternal and Child Health Services Block Grant			
to the States	93.994	5883MC05	20,782
			29,323
Iowa Department of Human Services:			
Human Services Administrative			
Reimbursements:			
Temporary Assistance for Needy Families	93.558		20,930
Refugee and Entrant Assistance - State			
Administered Programs	93.566		63
Child Care Mandatory and Matching Funds			
of the Child Care and Development Fund	93.596		4,039
Foster Care - Title IV-E	93.658		7,161
Adoption Assistance	93.659		2,356
Medical Assistance Program	93.778		20,484
Social Services Block Grant	93.667		13,801
Social Services Block Grant			
	93.667		190,042
			203,843
Total Indirect			\$ 523,326

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Officials of Lee County:

We have audited the financial statements of Lee County, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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, 2003 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. Prior year statutory comments have been resolved except for items IV-B-03 and IV-K-03.

Internal Control Over Financial Reporting

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

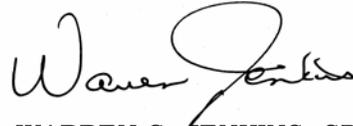
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-J-03 and II-K-03 are material weaknesses. Prior year reportable conditions have been resolved except for items II-B-03 and II-D-03.

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. 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

October 31, 2003

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Officials of Lee County:

Compliance

We have audited the compliance of Lee County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. Lee County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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, Chapter 11 of the Code of Iowa, 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 provisions 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 that 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 are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

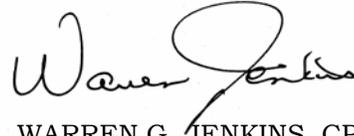
The management of Lee County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lee County's internal control over compliance 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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

October 31, 2003

Lee County
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no instances of non-compliance which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 93.667 – Social Services Block Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lee County qualified as a low-risk auditee.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-03 Segregation of Duties – During our review of the internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. Generally, one individual in the Sheriff's office may have control over receipt depositing and posting to inmate ledgers for the Sheriff's Commissary account.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the County Sheriff 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.

Response – Recommendation has been implemented.

Conclusion – Response accepted.

II-B-03 Disaster Recovery Plan – The County does not have a written disaster recovery plan.

Recommendation – A written disaster recovery plan should be developed.

Response – The Board of Supervisors will be establishing an ad-hoc committee to first develop an outline of what our approach to a plan development will be, and then after review and approval of the preliminary outline the committee will proceed to develop a formal plan to be reviewed and approved by the board.

Conclusion – Response accepted.

II-C-03 County Treasurer – Although a current tax reconciliation was prepared for each tax district, variances existed between total tax collections per the reconciliation and the Treasurer's general ledger.

Recommendation – Total tax collections per the current tax reconciliation should be reconciled to the Treasurer's general ledger and variances should be identified and resolved timely.

Response – We will compare the general ledger with collections for each month to determine the variance.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

II-D-03 County Engineer – Receipts are not always deposited timely.

Recommendation – Receipts should be deposited timely to ensure proper safeguarding of assets.

Response – We will attempt to deposit receipts on a daily basis.

Conclusion – Response accepted.

II-E-03 Sheriff's Commissary Account – Jail commissary account profits were accumulating in the commissary account and had not been remitted to the County Treasurer. Documentation supporting disbursements for commissary purchases was not retained. In addition, checks are occasionally signed in advance by the jailer.

Recommendation – Jail commissary account profits should be remitted to the County Treasurer for credit to the General or a Special Revenue Fund. All supporting documentation for commissary disbursements should be retained. The practice of signing checks in advance should be prohibited.

Response – Recommendation has been implemented. By agreement, \$1,000 will be set aside in the account to facilitate the periodic purchase of stamps and envelopes.

Conclusion – Response accepted.

II-F-03 Sheriff's Forfeiture Account – The County Sheriff maintains a forfeiture account for the collection and expenditure of forfeiture moneys. Although the activity in the account is reported semi-annually to the County Budget Director for inclusion in the County's financial activity and budget, expenditures from this account are not made by County claim and are not approved by the Board of Supervisors.

Recommendation – The County Sheriff's forfeiture account balance and any future collections should be remitted to the County Treasurer. Disbursements from the fund should be made through County claims approved by the Board of Supervisors.

Response – The current procedure was with the agreement of and by the terms of the State Auditor's Office made during the exit interview of the 1995/1996 fiscal year audit. I find this system continues to be working effectively.

Conclusion – Response acknowledged. However, expenditures of these moneys should be through the County's normal disbursement process, including budget and Board of Supervisor approval.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

II-G-03 Sheriff's Vehicle – In June 2003, a disbursement of \$12,400 was made from the Sheriff's fee account for a vehicle. The purchase was funded with proceeds received from the sale of two vehicles and insurance reimbursements which were deposited to the Sheriff's fee account. These collections and the disbursement were not reflected in the County's accounting system and have not been included in the County's annual budget or monthly financial reports.

Recommendation – All collections received should be remitted to the County Treasurer for deposit to the General Fund and purchases should be made by County claims approved by the Board of Supervisors and reflected in the County's budget and accounting system.

Response – Recommendation has been implemented. However, as a point of clarity, this single occurrence was following a discussion between the Sheriff and the Board, and a very specific paper trail was maintained.

Conclusion – Response accepted.

II-H-03 Public Health Department Credit Card – An employee charged personal expenses of \$154 on a Public Health Department credit card in April 2003. The employee subsequently repaid the charge. During the year ended June 30, 2003, \$49 of finance charges and \$29 of sales tax were incurred on the credit card account.

Recommendation – Payments should be made in a timely manner to avoid finance charges. Due care should be exercised to delete all sales tax from payments on exempt goods and services.

The Board of Health should adopt a written policy regulating the use of credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges. Board policy should prohibit the use of County credit cards for personal expenses.

Response – A formal policy for credit cards is being prepared for review by the board and should be ready for final approval and adoption at the January 2004 meeting of the board.

Conclusion – Response accepted.

II-I-03 Public Health Department Receipts – The initial receipt listing does not include all checks received in the mail. Prenumbered receipts are not issued for all other collections. Deposits are not compared to the receipt record by an independent person. Receipts are not always deposited timely.

Recommendation – The initial receipt listing should include all checks received in the mail. Prenumbered receipts should be issued for all other collections. An independent person should compare the amount deposited to the receipt records. Receipts should be deposited with the County Treasurer timely.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Response – Procedures for the management of receipts are being evaluated at this time. New policies will include measures to address recommended changes.

Conclusion – Response accepted.

- II-J-03 Public Health Department Receivables – Accounts receivable listings were not generated at the end of each month. Also, the amounts billed for medicare, medicaid and other reimbursements were not reconciled to collections and accounts receivable.

Recommendation – Accounts receivable listings should be generated and a reconciliation of billings, collections and accounts receivable should be prepared monthly.

Response – Procedures for the management of accounts receivable are being evaluated at this time. New policies will include measure to address recommended changes.

Conclusion – Response accepted.

- II-K-03 Disposal of Public Health Department Capital Assets – The Board of Health does not have a written policy for or approve capital asset disposals. Based on the statements of former employees, certain capital assets were given to employees or others.

Recommendation – The County should consult legal counsel regarding the disposition of this matter. The Board of Health should adopt written policies and procedures for the disposition of all capital assets, whether by trade, sale or other method. The policies should require Board of Health approval for all disposals and should prohibit employees from receiving capital assets, unless purchased through public auction.

Response – The County Attorney has been consulted. Initial steps have been taken to address the recommendations and a formal policy is being prepared for adoption.

Conclusion – Response accepted.

- II-L-03 Public Health Department Payroll – The Board of Health does not approve salaries, wages or changes to payroll.

Recommendation - The Board of Health should approve all employee salaries, wages and changes to payroll, including additions, promotions and dismissals.

Response – The Board has begun to make changes in policy to address this recommendation.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

II-M-03 Capital Asset Disposals – The County does not have a written policy for the disposal of capital assets.

Recommendation – The Board of Supervisors should adopt written policies and procedures for the disposition of all capital assets, whether by trade, sale or other method. The policy should require proper approval for all disposals and should prohibit employees from receiving capital assets unless purchased through public auction.

Response – The Board has determined that almost all department heads have a reasonable understanding of proper asset disposal. The Board will reduce this policy to writing so that correct procedures are observed with restrictions on employee participation.

Conclusion – Response accepted.

II-N-03 Credit Card Policy – The County has certain credit cards available for use by various departments. The County does not have a written policy regarding use of these credit cards.

Recommendation – The Board should adopt a written policy governing the use of County owned credit cards. The policy should specify the individuals who are authorized to use the cards, the types of expenses allowed and the documentation required to support the expense incurred. Board policy should prohibit the use of County-owned credit cards for personal expenses.

Response – A formal credit card policy will be adopted by the Board in January.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-03 Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

IV-B-03 Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amount budgeted in the roads and transportation function.

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 need for budget amendments will be watched closely.

Conclusion – Response accepted.

IV-C-03 Questionable Expenditures – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

Paid to	Purpose	Amount
Sorento’s Pizza	Public Health Department gift certificates for child care providers and meals for meeting	\$ 371
Breadeaux Pizza	Public Health Department gift certificates for child care providers	300
Pizza Plus Restaurant	Public Health Department gift certificates for child care providers	650
Paul Revere Pizza	Public Health Department gift certificates for child care providers and meals for meeting	335
Ivy Bake Shoppe & Café	Food for Public Health Department meeting and election meeting	105
Hy-Vee	Meals and candy for Public Health Department meeting	291
American Cancer Society	Entry fees and sponsorship for Relay for Life	1,200

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The County Board of Health and Board of Supervisors should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the County should establish written policies and procedures, including the requirement for proper documentation.

Response – The Board will communicate with the Board of Health and department heads to achieve compliance.

Conclusion – Response accepted.

- IV-D-03 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- IV-E-03 Business Transactions – No business transactions between the County and County officials or employees were noted.
- IV-F-02 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all coverage should be periodically reviewed to ensure the coverage is adequate for current operations.
- IV-G-03 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-H-03 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- IV-I-03 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-J-03 Installment Purchase Agreement – During the year ended June 30, 2003, the County entered into an installment purchase agreement for the purchase of computer equipment. The agreement was not entered into in accordance with Chapters 331.478 and 331.479 of the Code of Iowa.

Chapter 331.478 of the Code of Iowa allows a County to authorize by resolution non-current debt, including installment purchase contracts and other formal debt instruments or obligations other than bonds, payable from resources accruing after the end of the fiscal year in which the debt is incurred, in accordance with Chapter 331.479 of the Code of Iowa. Chapter 331.479 of the Code of Iowa requires a notice of public hearing to be published and a public hearing to be held before the Board may institute proceedings for incurring non-current debt.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Recommendation – The County should ensure future non-current debt is authorized in accordance with Chapters 331.478 and 331.479 of the Code of Iowa.

Response – Yes we should and we will.

Conclusion – Response accepted.

- IV-K-03 Deficit Fund Balance – The Mental Health Fund had a deficit balance in July 2002. This appears to violate Chapter 331.476 of the Code of Iowa.

Recommendation – Claims should not be approved for payment when funds are not available unless the debt is authorized by resolution of the Board of Supervisors and takes the form of anticipatory warrants, loans from other County funds or other formal short-term debt instruments or obligations in accordance with Chapter 331.477 of the Code of Iowa.

Response – This will not happen again.

Conclusion – Response accepted.

- IV-L-03 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the County to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The County Sheriff retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The County Sheriff should obtain and retain an image of both the front and back of each cancelled check as required.

Response – Recommendation has been implemented.

Conclusion – Response accepted.

- IV-M-03 Public Health Department Timesheets – Based on the statements of former employees, timesheets were allegedly miscoded between programs upon the request of their supervisors. We were unable to determine the effect, if any, on the proper program reimbursements received by the County.

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

Response – The County Attorney has been consulted. The board has implemented interim controls and a formal policy will be adopted that will provide for serious consequences should this situation occur.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-N-03 Library Contribution – A \$25,000 expenditure was made from the General Fund for a library contribution. Chapter 331.428(2)(b) of the Code of Iowa states this expenditure may be paid from the Rural Services Fund but not from the General Fund.

Recommendation – The County should transfer \$25,000 from the Rural Services Fund to the General Fund. Future library contributions should be paid from the Rural Services Fund.

Response – We have made the transfer and will pay future library contributions from the Rural Services Fund.

Conclusion – Response accepted.

IV-O-03 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.

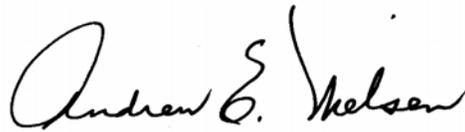
Disbursements during the year ended June 30, 2003 for the County Extension Office did not exceed the amount budgeted.

Lee County

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Donna F. Kruger, CPA, Senior Auditor II
Ted M. Wiegand, CPA, Senior Auditor
Kevin P. Riley, CPA, Staff Auditor
Sheila M. Jensen, Staff Auditor
Jennifer R. Edgar, 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