



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

April 19, 2013

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

The County had local tax revenue of \$41,264,490 for the year ended June 30, 2012, which included \$1,498,988 in tax credits from the state. The County forwarded \$30,693,106 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$10,571,384 of the local tax revenue to finance County operations, a less than 1% increase over the prior year. Other revenues included charges for service of \$3,333,394, operating grants, contributions and restricted interest of \$8,182,809, capital grants, contributions and restricted interest of \$2,723,965, local option sales tax of \$1,398,956, unrestricted investment earnings of \$111,568 and other general revenues of \$562,047.

Expenses for County operations totaled \$26,252,234, a 6.9% increase from the prior year. Expenses included \$6,566,872 for mental health, \$6,175,818 for roads and transportation, \$4,370,545 for public safety and legal services and \$4,069,516 for physical health and social services.

A copy of the audit report is available for review in the County Auditor's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1210-0056-B00F.pdf>.

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LEE COUNTY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

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Lee County

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Janet Fife-LaFrenz	Board of Supervisors	Jan 2013
Gary Folluo	Board of Supervisors	Jan 2013
Larry Kruse	Board of Supervisors	Jan 2013
Rick Larkin	Board of Supervisors	Jan 2015
Ernest Schiller	Board of Supervisors	Jan 2015
Anne M. Pedersen	County Auditor	Jan 2013
Janet Strunk	County Treasurer	Jan 2015
Nancy Booten	County Recorder	Jan 2015
Jim Sholl	County Sheriff	Nov 2012
Michael P. Short	County Attorney	Jan 2015
Teresa Murray	County Assessor	Jan 2016

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, 2012, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Lee County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lincoln Ridge Limited Partnership, a blended component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended component unit, is based solely on the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Lincoln Ridge Limited Partnership were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the report of the other auditors provide a reasonable basis for our opinions.


The financial statements of Lee County EMS Ambulance, Inc., the County's only discretely presented component unit, have not been audited, and we were not engaged to audit the financial statements of Lee County EMS Ambulance, Inc. as part of our audit of the County's basic financial statements. As described in Note 14, the County has chosen to present condensed financial information for Lee County EMS Ambulance, Inc. Because Lee County EMS Ambulance, Inc.'s financial statements have not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the condensed financial information of the discretely presented component unit of the County as of and for the year ended December 31, 2011.

In addition, in our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lee County at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2013 on our consideration of Lee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 12 and 50 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 11, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lee County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the County is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at June 30, 2012 by approximately \$39.4 million.
- Lee County's net assets increased approximately \$632,000 from fiscal year 2011 to fiscal year 2012.
- Governmental activities revenues in fiscal year 2012 increased 9%, or approximately \$2,240,000, from fiscal year 2011. Property and other county tax increased approximately \$31,000 in fiscal year 2012 over fiscal year 2011. The overall tax levy rate decreased \$.11824, from \$11.14594 to \$11.0277, per \$1,000 of taxable valuation. The countywide and the rural services taxable property valuations increased approximately \$30.4 million and \$19.2 million, respectively, from fiscal year 2011 to fiscal year 2012.
- Governmental activities expenses increased 6.9%, or approximately \$1,685,000, from fiscal year 2011 to fiscal year 2012. The increase in expenses is due primarily to an increase in mental health expenses during fiscal year 2012.
- The County is in the eleventh year of implementation of the Lee County Economic Development Plan. The goal of this plan is to bring much needed jobs to the County, thus employing our citizens and increasing the County's tax base. The Lee County Board of Supervisors, other than budgetary, allows this department to function with considerable autonomy.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.
- Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lee County as a whole and present an overall view of the County's finances.
- Fund Financial Statements tell how governmental services were financed in the short-term as well as what remains for future spending. Fund financial statements report Lee County's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lee County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Lee County's combined net assets were relatively unchanged from a year ago, increasing approximately \$632,000 to approximately \$39.4 million. The analysis that follows focuses on the changes in the net assets of governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2012	2011
Current and other assets	\$ 23,971	\$ 24,389
Capital assets	37,817	36,718
Total assets	<u>61,788</u>	<u>61,107</u>
Long-term liabilities	9,001	9,537
Other liabilities	13,356	12,771
Total liabilities	<u>22,357</u>	<u>22,308</u>
Net assets:		
Invested in capital assets, net of related debt	32,937	31,473
Restricted	5,826	7,215
Unrestricted	668	111
Total net assets	<u>\$ 39,431</u>	<u>\$ 38,799</u>

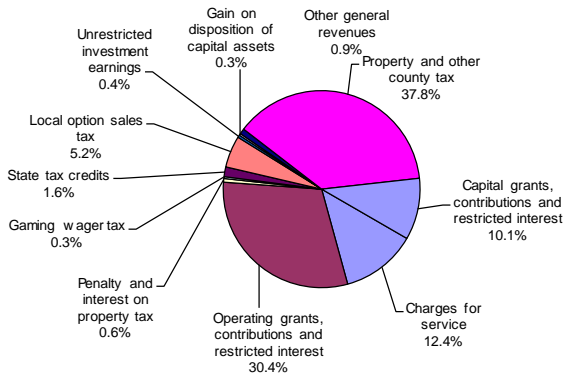
Lee County's total net assets increased approximately \$632,000, or 1.6%. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. Debt related to capital assets is liquidated with resources other than capital assets. Comparatively, fiscal year 2011 total net assets decreased approximately \$77,000, or .2%, from fiscal year 2010.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, increased from approximately \$111,000 at June 30, 2011 to approximately \$668,000 at the end of this year, an increase of 500%, primarily due to payments on bonds and notes which were not used to purchase assets capitalized by the County.

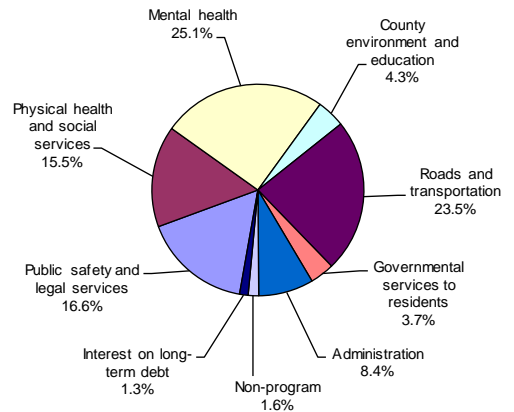
Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2012	2011
Revenues:		
Program revenues:		
Charges for service	\$ 3,333	\$ 3,189
Operating grants, contributions and restricted interest	8,183	8,179
Capital grants, contributions and restricted interest	2,724	576
General revenues:		
Property and other county tax	10,145	10,114
Penalty and interest on property tax	165	151
Gaming wager tax	84	91
State tax credits	426	443
Local option sales tax	1,399	1,540
Unrestricted investment earnings	112	136
Gain on disposition of capital assets	79	16
Other general revenues	234	209
Total revenues	26,884	24,644
Program expenses:		
Public safety and legal services	4,370	4,230
Physical health and social services	4,069	3,935
Mental health	6,567	4,801
County environment and education	1,120	1,045
Roads and transportation	6,176	6,256
Governmental services to residents	967	932
Administration	2,218	2,481
Non-program	430	534
Interest on long-term debt	335	353
Total expenses	26,252	24,567
Increase in net assets	632	77
Net assets beginning of year	38,799	38,722
Net assets end of year	\$ 39,431	\$ 38,799

Revenue by Source



Expenses by Program



For fiscal year 2012, Lee County's property tax rates decreased to \$9.00170 per \$1,000 of taxable valuation for the countywide levy and increased to \$2.02600 per \$1,000 of taxable valuation for the rural levy. The countywide taxable property valuation increased \$30,396,000 and the rural taxable property valuation increased \$19,247,000. The net effect of the increases in valuations and the increase in tax rates was a net increase in property and other county tax revenue of approximately \$31,000.

Capital grants, contributions and restricted interest increased approximately \$2,148,000 due to an increase in capital grants being contributed by the Iowa Department of Transportation in fiscal year 2012.

INDIVIDUAL MAJOR FUND ANALYSIS

As Lee County completed the year, its governmental funds reported a combined fund balance of \$8,639,806, which is less than the \$9,608,475 combined fund balance at the end of fiscal year 2011.

The General Fund, the operating fund for Lee County, ended fiscal year 2012 with an ending balance of \$4,591,814 compared to prior year ending balance of \$4,457,766, an increase of \$134,048. Revenues decreased \$268,559, primarily due to a decrease in property tax revenue. Expenditures decreased \$174,756 in fiscal year 2012.

The Special Revenue, Mental Health Fund ended fiscal year 2012 with an ending balance of \$386,672 compared to the prior year ending balance of \$1,403,965, a decrease of \$1,017,293. Revenues increased \$659,691, primarily due to an increase in state payment program funding and the mental health allowable growth factor. Expenditures increased \$1,751,330, primarily due to the County assuming responsibility for previous State chronic mental illness patients as well as paying Medicaid related costs to DHS so the State will take responsibility for these Medicaid patients in the future.

The Special Revenue, Secondary Roads Fund ended fiscal year 2012 with an ending balance of \$1,766,150 compared to the prior year ending balance of \$1,854,945, a decrease of \$88,795. Revenues increased \$245,688, primarily due to an increase of approximately \$110,000 in road use tax funding, an increase of approximately \$431,000 for a bridge replacement project and decreases of approximately \$181,000 and \$121,000, respectively, due to a USDA emergency watershed protection grant and IJobs money received during fiscal year 2011. Expenditures increased \$669,894, primarily due to roadway expenditures for a bridge replacement project and road maintenance.

The Debt Service Fund ended fiscal year 2012 with an ending balance of \$454,190 compared to the prior year ending balance of \$494,802, a decrease of \$40,612. Revenues decreased \$3,346, due primarily to a decrease in tax revenue. Expenditures decreased \$4,763.

BUDGETARY HIGHLIGHTS

Over the course of the year, Lee County amended its budget three times. The first amendment was made on August 9, 2011 to return unused ARRA money and to continue digitalizing old books. The second amendment was made on March 27, 2012. This amendment was made to increase conservation, General Relief/CPC receipts and disbursements for additional grants received and maintenance for additional disbursements. The third amendment was made on May 15, 2012. This amendment was for additional disbursements due to rising jail population and for increased disbursements for mental health.

The County's receipts were \$59,045 more than budgeted, a variance of .25%. Property and other county tax receipts were \$203,126 more than budgeted, primarily due to an unexpected increase in the local option sales tax receipts, and miscellaneous receipts were \$70,399 more than budgeted, primarily due to an increase in fines from the County Attorney's collection program and an increase in mental health provider reimbursements.

Total disbursements were \$2,299,119 less than the amended budget, a variance of 8.7%. Actual disbursements for the mental health, administration and public safety and legal services functions were \$874,513, \$388,786 and \$245,283, respectively, less than budgeted. The mental health function disbursements were less than budgeted primarily due to the state withholding Medicaid payments which led to a delay in the County paying some mental health bills. The administration function disbursements were less than budgeted primarily due to greater than anticipated costs savings through the consolidation of the north and south Treasurer's and Auditor's Offices as well as a reduction in staff through attrition. The public safety and legal services function disbursements were less than budgeted primarily due to less regular and overtime salary incurred for deputies than expected, as well as lower medical examiner fees than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the County had invested approximately \$37.8 million, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment, transportation equipment and administrative offices. This amount is a net increase of approximately \$1,100,000 from fiscal year 2011, primarily due to completion of the street resurfacing project and a bridge replacement project.

Lee County had depreciation/amortization expense of approximately \$2.4 million in fiscal year 2012 and total accumulated depreciation/amortization of approximately \$30.2 million at June 30, 2012. Additional information about the County's capital assets is included in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2012, the County had approximately \$8,299,000 of long-term debt outstanding. This represents a decrease of approximately \$642,000 from the fiscal year 2011 total.

Outstanding debt decreased primarily due to scheduled payments of \$475,000 made on general obligation bonds. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Lee County's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$92 million. Additional information about the County's long-term debt is included in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

From fiscal year 2011 to fiscal year 2012, the countywide and the rural taxable property valuations increased approximately \$30.4 million and \$19.2 million, respectively. In fiscal year 2013, the countywide and the rural taxable property valuations increased approximately \$61.7 million and \$24.6 million, respectively.

Amounts budgeted for disbursements in the fiscal year 2013 operating budget are approximately \$24.8 million, an increase of 2.8% from the fiscal year 2012 actual disbursements of approximately \$24.1 million. The County's ending fund balances are expected to end fiscal year 2013 with a budgeted ending cash balance of approximately \$7 million compared to the June 30, 2012 actual cash balance of approximately \$8.5 million.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the County's citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lee County Board of Supervisors at P.O. Box 190, Fort Madison, IA 52627-0190.

Basic Financial Statements

Exhibit A

Lee County
Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>
Assets	
Cash, pooled investments and cash equivalents	\$ 10,781,218
Receivables:	
Property tax:	
Delinquent	46,332
Succeeding year	10,372,000
Interest and penalty on property tax	61,131
Accounts	422,571
Accrued interest	10,036
E911 loan	410,000
Due from other governments	1,267,252
Inventories	600,154
Capital assets, net of accumulated depreciation/amortization	<u>37,817,126</u>
Total assets	<u>61,787,820</u>
Liabilities	
Accounts payable	1,072,064
Accrued interest payable	26,952
Salaries and benefits payable	294,678
Due to other governments	1,589,551
Deferred revenue:	
Succeeding year property tax	10,372,000
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	495,000
Bank loans	29,543
Capital lease purchase agreements	14,653
Compensated absences	365,637
Portion due or payable after one year:	
General obligation bonds	7,605,000
Bank loans	154,536
Compensated absences	69,911
Net OPEB liability	<u>267,016</u>
Total liabilities	<u>22,356,541</u>

Lee County
Statement of Net Assets
June 30, 2012

	Governmental Activities
Net Assets	
Invested in capital assets, net of related debt	32,937,050
Restricted for:	
Nonexpendable:	
Permanent Fund - hospice care	82,500
Expendable:	
Supplemental levy purposes	1,372,922
Mental health purposes	398,199
Rural services purposes	571,089
Secondary roads purpose	1,605,885
Conservation land acquisition	24,528
Debt service	457,187
Building repair and maintenance	530,430
Hospice purposes	24,461
Other purposes	758,640
Unrestricted	668,388
Total net assets	\$ 39,431,279

See notes to financial statements.

Lee County

Lee County
Statement of Activities
Year ended June 30, 2012

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Service	Contributions and Restricted Interest	Operating Grants, Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 4,370,545	286,114	157,066	-	(3,927,365)
Physical health and social services	4,069,516	1,858,418	1,034,812	-	(1,176,286)
Mental health	6,566,872	138,471	3,349,787	-	(3,078,614)
County environment and education	1,119,614	61,067	328,123	-	(730,424)
Roads and transportation	6,175,818	45,873	3,230,693	2,723,965	(175,287)
Governmental services to residents	966,723	496,586	48,402	-	(421,735)
Administration	2,218,542	26,733	16,311	-	(2,175,498)
Non-program	429,832	420,132	20	-	(9,680)
Interest on long-term debt	334,772	-	17,595	-	(317,177)
Total	\$ 26,252,234	3,333,394	8,182,809	2,723,965	(12,012,066)
General Revenues:					
Property and other county tax levied for:					
General purposes					9,420,437
Debt services					724,916
Penalty and interest on property tax					164,718
Gaming wager tax					83,657
State tax credits					426,031
Local option sales tax					1,398,956
Unrestricted investment earnings					111,568
Gain on disposition of capital assets					79,434
Miscellaneous					234,238
Total general revenues					12,643,955
Change in net assets					631,889
Net assets beginning of year					38,799,390
Net assets end of year					\$ 39,431,279
See notes to financial statements.					

Lee County
Balance Sheet
Governmental Funds

June 30, 2012

	Special Revenue		
	General	Mental Health	Secondary Roads
Assets			
Cash, pooled investments and cash equivalents:			
County Treasurer	\$ 4,703,439	1,750,496	1,022,397
Component units	-	-	-
Receivables:			
Property tax:			
Delinquent	30,227	9,662	-
Succeeding year	6,465,000	2,067,000	-
Interest and penalty on property tax	61,131	-	-
Accounts	45,061	8,024	7,693
Accrued interest	9,045	-	-
E911 loan	-	-	-
Due from other governments	592,632	330,300	254,138
Inventories	-	-	594,789
Total assets	\$ 11,906,535	4,165,482	1,879,017
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 325,702	260,435	29,546
Salaries and benefits payable	207,292	4,762	60,617
Due to other funds	6,218	241	136
Due to other governments	133,023	1,430,613	16,371
Deferred revenue:			
Succeeding year property tax	6,465,000	2,067,000	-
Other	177,486	15,759	6,197
Total liabilities	7,314,721	3,778,810	112,867
Fund balances:			
Nonspendable:			
Inventories	-	-	594,789
Hospice care	-	-	-
Restricted for:			
Supplemental levy purposes	1,414,467	-	-
Mental health purposes	-	386,672	-
Rural services purposes	-	-	-
Secondary roads purposes	-	-	1,171,361
Conservation land acquisition	24,528	-	-
Debt service	-	-	-
Hospice care	-	-	-
Building repair and maintenance (local option sales tax)	530,430	-	-
Other purposes	-	-	-
Assigned for:			
Sheriff's commissary	36,954	-	-
Capital projects	-	-	-
Unassigned	2,585,435	-	-
Total fund balances	4,591,814	386,672	1,766,150
Total liabilities and fund balances	\$ 11,906,535	4,165,482	1,879,017

See notes to financial statements.

Debt Service	Nonmajor	Total
43,966	988,805	8,509,103
-	513,175	513,175
3,202	3,241	46,332
722,000	1,118,000	10,372,000
-	-	61,131
-	361,334	422,112
19	187	9,251
410,000	-	410,000
-	90,182	1,267,252
-	-	594,789
<u>1,179,187</u>	<u>3,074,924</u>	<u>22,205,145</u>
-	431,891	1,047,574
-	19,202	291,873
-	-	6,595
-	9,544	1,589,551
722,000	1,118,000	10,372,000
2,997	55,307	257,746
<u>724,997</u>	<u>1,633,944</u>	<u>13,565,339</u>
-	-	594,789
-	82,500	82,500
-	-	1,414,467
-	-	386,672
-	536,134	536,134
-	-	1,171,361
-	-	24,528
454,190	-	454,190
-	24,461	24,461
-	-	530,430
-	804,730	804,730
-	-	36,954
-	39,245	39,245
-	(46,090)	2,539,345
<u>454,190</u>	<u>1,440,980</u>	<u>8,639,806</u>
<u>1,179,187</u>	<u>3,074,924</u>	<u>22,205,145</u>

Lee County

Lee County

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

June 30, 2012

Total governmental fund balances (page 19) \$ 8,639,806

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$67,757,002 and the accumulated depreciation/amortization is \$29,992,422. 37,764,580

Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the governmental funds. 257,746

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

Capital assets of \$233,492, net of accumulated depreciation/amortization of \$180,946	\$ 52,546	
Compensated absences	(4,632)	
Net OPEB liability	(2,069)	
Other net assets	<u>1,744,849</u>	1,790,694

bank loans payable, capital lease purchase agreements payable, other postemployment benefits payable, accrued interest payable and compensated absences payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds. (9,021,547)

Net assets of governmental activities (page 15) \$ 39,431,279

See notes to financial statements.

Lee County

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

Year ended June 30, 2012

	Special Revenue		
	General	Mental Health	Secondary Roads
Revenues:			
Property and other county tax	\$ 6,509,551	2,072,332	-
Local option sales tax	352,297	-	-
Interest and penalty on property tax	145,270	-	-
Intergovernmental	3,176,946	3,393,013	3,732,208
Licenses and permits	88,520	-	17,048
Charges for service	911,246	-	43
Use of money and property	153,463	68,434	-
Miscellaneous	146,032	24,881	41,015
Total revenues	11,483,325	5,558,660	3,790,314
Expenditures:			
Operating:			
Public safety and legal services	3,752,136	-	-
Physical health and social services	3,683,602	-	-
Mental health	-	6,575,953	-
County environment and education	933,510	-	-
Roads and transportation	-	-	4,552,964
Governmental services to residents	955,189	-	-
Administration	2,022,340	-	-
Debt service	-	-	-
Capital projects	2,500	-	636,145
Total expenditures	11,349,277	6,575,953	5,189,109
Excess (deficiency) of revenues over (under) expenditure	134,048	(1,017,293)	(1,398,795)
Other financing sources (uses):			
Operating transfers in	-	-	1,310,000
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	1,310,000
Change in fund balances	134,048	(1,017,293)	(88,795)
Fund balances beginning of year	4,457,766	1,403,965	1,854,945
Fund balances end of year	\$ 4,591,814	386,672	1,766,150

See notes to financial statements.

Debt Service	Nonmajor	Total
724,763	920,016	10,226,662
-	1,056,891	1,409,188
-	-	145,270
46,190	309,238	10,657,595
-	-	105,568
-	5,643	916,932
1,769	69,050	292,716
-	196,121	408,049
<u>772,722</u>	<u>2,556,959</u>	<u>24,161,980</u>
-	669,880	4,422,016
-	298,798	3,982,400
-	39,147	6,615,100
-	182,376	1,115,886
-	-	4,552,964
-	2,849	958,038
-	-	2,022,340
813,334	-	813,334
-	9,926	648,571
<u>813,334</u>	<u>1,202,976</u>	<u>25,130,649</u>
<u>(40,612)</u>	<u>1,353,983</u>	<u>(968,669)</u>
-	-	1,310,000
-	(1,310,000)	(1,310,000)
-	(1,310,000)	-
<u>(40,612)</u>	<u>43,983</u>	<u>(968,669)</u>
<u>494,802</u>	<u>1,396,997</u>	<u>9,608,475</u>
<u>454,190</u>	<u>1,440,980</u>	<u>8,639,806</u>

Lee County

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

Year ended June 30, 2012

Change in fund balances - Total governmental funds (page 23) \$ (968,669)

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

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

Expenditures for capital assets	\$ 1,070,073	
Capital assets contributed by the Iowa Department of	2,300,421	
Depreciation/amortization expense	<u>(2,321,221)</u>	1,049,273

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the proceeds from the disposition increase financial resources in the governmental funds. 79,434

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

Property tax	2,348	
Other	<u>(91,560)</u>	(89,212)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 642,491

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

Compensated absences	(27,203)	
Other postemployment benefits	(78,549)	
Interest on long-term debt	<u>3,562</u>	(102,190)

The Internal Service Funds are used by management to charge the costs of various services to individual departments and funds. The change in net assets of the Internal Service Funds is reported with governmental activities. 20,762

Change in net assets of governmental activities (page 17) \$ 631,889

See notes to financial statements.

Lee County
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Internal Service
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,758,940
Receivables:	
Accounts	459
Accrued interest	785
Due from other funds	6,823
Inventories	5,365
Noncurrent assets:	
Capital assets, net of accumulated depreciation/amortization	52,546
Total assets	1,824,918
Liabilities	
Current liabilities:	
Accounts payable	24,490
Salaries and benefits payable	2,805
Due to other funds	228
Compensated absences	4,632
Non-current liabilities:	
Net OPEB liability	2,069
Total liabilities	34,224
Net Assets	
Invested in capital assets	52,546
Unrestricted	1,738,148
Total net assets	\$ 1,790,694

See notes to financial statements.

Lee County

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

Year ended June 30, 2012

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds and other governmental units		\$ 2,225,067
Reimbursements from employees and others		143,911
Miscellaneous reimbursements		<u>2,371</u>
Total operating revenues		2,371,349
Operating expenses:		
Medical and health services	\$ 2,008,927	
Supplemental insurance	979	
Salaries and benefits	83,316	
Administrative fees, network access fees and stop-loss premium	84,680	
Supplies, utilities and data processing	85,572	
Maintenance agreements	19,047	
Non-capitalized equipment	19,128	
Depreciation/amortization	<u>58,197</u>	<u>2,359,846</u>
Operating income		11,503
Non-operating revenues:		
Interest income		<u>9,259</u>
Net income		20,762
Net assets beginning of year		<u>1,769,932</u>
Net assets end of year		<u>\$ 1,790,694</u>
See notes to financial statements.		

Lee County
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2012

	Internal Service
Cash flows from operating activities:	
Cash received from operating funds and other governmental units	\$ 2,222,820
Cash received from employees and others	143,911
Cash paid to suppliers for services	(2,628,019)
Net cash used by operating activities	(261,288)
Cash flows from capital and related financing activities:	
Purchase of equipment	(28,601)
Cash flows from investing activities:	
Interest on investments	9,392
Net decrease in cash and cash equivalents	(280,497)
Cash and cash equivalents beginning of year	2,039,437
Cash and cash equivalents end of year	\$ 1,758,940
 Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ 11,503
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation/amortization expense	58,197
Changes in assets and liabilities:	
Increase in accounts receivable	(368)
Increase in due from other funds	(4,249)
Increase in inventories	(5,354)
Decrease in accounts payable	(322,219)
Increase in salaries and benefits payable	347
Decrease in due to other funds	(37)
Increase in compensated absences	425
Increase in net OPEB liability	467
Net cash used by operating activities	\$ (261,288)

See notes to financial statements.

Lee County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2012

Assets

Cash, pooled investments and cash equivalents:

County Treasurer	\$ 2,367,517
Other County officials	252,506

Receivables:

Property tax:

Delinquent	156,829
Succeeding year	29,383,000

Accounts

1,602

Accrued interest

737

Special assessments

313,283

Drainage assessments:

Current

94,790

Future

242,501

Due from other governments

723,219

Total assets

33,535,984**Liabilities**

Accounts payable

374,945

Salaries and benefits payable

32,607

Due to other governments

31,845,194

Trusts payable

532,470

Compensated absences

26,966

Bank loan

723,802

Total liabilities

33,535,984**Net assets**

\$ -

See notes to financial statements.

Lee County

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Lee County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County.

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

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

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, Great River Progressive Housing Corporation meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

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

leasing and disposing of a residential multi-dwelling housing project of up to 16 units for hard to house persons of low income. In accordance with criteria set forth by the Governmental Accounting Standards Board, Lincoln Ridge Limited Partnership meets the definition of a component unit which should be blended. The partnership's financial report for the year ended December 31, 2011 was used to provide the financial activity included in this report. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

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, Lee County Economic Development Group meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

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, Three Rivers Conservation Foundation meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

Friends of the Lee County Health Department (Friends of Public Health) 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, Friends of Public Health meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

Discretely Presented Component Unit

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

In accordance with criteria set forth by the Governmental Accounting Standards Board, EMS meets the definition of a component unit which should be discretely presented. Condensed financial statements for the year ended December 31, 2011 presented in Note 14 were prepared on the accrual basis of accounting. Unaudited financial statements may be obtained from Lee County EMS Ambulance, Inc., 314 South Main Street, Donnellson, IA 50265.

Jointly Governed Organizations

The County 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,

Lee County Joint E911 Service Board and Children First – Lee/Van Buren Empowerment Area. Financial transactions of these organizations are included in the County’s financial statements only to the extent of the County’s fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments are stated at fair value except for 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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2011.

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

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 1980 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are

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

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

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

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

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

Assigned – Amounts the Board of Supervisors intend to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements exceeded the amount budgeted in the nonprogram function before the August 9, 2011 budget amendment was adopted.

(2) Cash, Pooled Investments and Cash Equivalents

The County's deposits in banks at June 30, 2012 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.

Three Rivers Conservation Foundation's investments at June 30, 2012 consist of stocks and stock mutual funds with a fair value of \$123,491. Disclosure of concentration of credit risk and interest rate risk do not apply to these investments.

Friends of Public Health's investments at June 30, 2012 consist of Series A preferred interest in IO-MEGA, LLC, with a cost of \$75,000. Fair value is not determinable for this investment. Disclosures of concentration of credit risk and interest rate do not apply to this investment.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
Internal Service:		
Supplies	General	\$ 6,218
	Special Revenue:	
	Mental Health	241
	Secondary Roads	136
	Internal Service:	
	Employee Health Plan Trust	29
	Information Technology	199
Total		<u>\$ 6,823</u>

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 1,310,000</u>

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 993,136	-	-	993,136
Land, road network	976,085	-	-	976,085
Construction in progress	619,619	2,892,222	(3,466,766)	45,075
Total capital assets not being depreciated/amortized	<u>2,588,840</u>	<u>2,892,222</u>	<u>(3,466,766)</u>	<u>2,014,296</u>
Capital assets being depreciated/amortized:				
Buildings	14,463,749	28,026	(38,580)	14,453,195
Improvements other than buildings	757,722	93,333	-	851,055
Equipment and vehicles	6,469,148	502,831	(324,848)	6,647,131
Equipment - internal service	131,737	28,601	-	160,338
Intangibles	125,420	-	-	125,420
Intangibles - internal service	73,154	-	-	73,154
Infrastructure, road network	40,265,623	3,400,282	-	43,665,905
Total capital assets being depreciated/amortized	<u>62,286,553</u>	<u>4,053,073</u>	<u>(363,428)</u>	<u>65,976,198</u>
Less accumulated depreciation/amortization for:				
Buildings	4,524,254	352,171	(38,580)	4,837,845
Improvements other than buildings	553,196	19,096	-	572,292
Equipment and vehicles	4,882,208	478,776	(295,586)	5,065,398
Equipment, internal service	93,487	43,566	-	137,053
Intangibles	142,782	11,900	(29,262)	125,420
Intangibles - internal service	29,262	14,631	-	43,893
Infrastructure, road network	17,932,189	1,459,278	-	19,391,467
Total accumulated depreciation/amortization	<u>28,157,378</u>	<u>2,379,418</u>	<u>(363,428)</u>	<u>30,173,368</u>
Total capital assets being depreciated/amortized, net	<u>34,129,175</u>	<u>1,673,655</u>	<u>-</u>	<u>35,802,830</u>
Governmental activities capital assets, net	<u>\$36,718,015</u>	<u>4,565,877</u>	<u>(3,466,766)</u>	<u>37,817,126</u>

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 113,465
Physical health and social services	16,109
Mental health	84,461
County environment and education	41,399
Roads and transportation	1,808,087
Administration	315,897
Total depreciation/amortization expense - governmental activities	<u>\$2,379,418</u>

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments at June 30, 2012 is as follows:

Fund	Description	Amount
General	Services	\$ 133,023
Special Revenue:		
Mental Health	Services	1,430,613
Secondary Roads	Services	16,371
Rural Services	Services	4,556
Memorial Trust	Services	4,988
		<u>1,456,528</u>
Total for governmental funds		<u>\$ 1,589,551</u>
Agency:		
County Assessor	Collections	\$ 910,363
Schools		16,757,849
Community Colleges		1,116,854
Corporations		11,081,713
Auto License and Use Tax		623,063
All other		1,355,352
Total for agency funds		<u>\$ 31,845,194</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	General Obligation Jail Bonds	General Solid Waste Disposal Bonds	General Emergency Services Bonds	County Bank Loan	Great River Progressive Housing Corporation Bank Loan	Capital Lease Purchase Agreements	County Real Estate Installment Purchase Agreement	Compen- sated Absences	Net OPEB Liability	Total
Balance beginning of year	\$4,860,000	3,260,000	455,000	53,461	212,059	48,703	52,000	407,920	188,000	9,537,143
Increases	-	-	-	-	-	-	-	508,950	101,734	610,684
Decreases	195,000	235,000	45,000	53,461	27,980	34,050	52,000	481,322	22,718	1,146,531
Balance end of year	<u>\$4,665,000</u>	<u>3,025,000</u>	<u>410,000</u>	<u>-</u>	<u>184,079</u>	<u>14,653</u>	<u>-</u>	<u>435,548</u>	<u>267,016</u>	<u>9,001,296</u>
Due within one year	<u>\$ 205,000</u>	<u>245,000</u>	<u>45,000</u>	<u>-</u>	<u>29,543</u>	<u>14,653</u>	<u>-</u>	<u>365,637</u>	<u>-</u>	<u>904,833</u>

General Obligation Jail Bonds

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

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2013	3.50%	\$ 205,000	184,895	389,895
2014	3.50	215,000	177,720	392,720
2015	3.50	225,000	170,195	395,195
2016	4.00	235,000	162,320	397,320
2017	5.00	245,000	152,920	397,920
2018-2022	3.70-5.00	1,395,000	591,095	1,986,095
2023-2027	3.90-4.00	1,750,000	294,010	2,044,010
2028	4.00	395,000	15,800	410,800
Total		\$ 4,665,000	1,748,955	6,413,955

General Obligation Solid Waste Disposal Bonds

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

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2013	4.20%	\$ 245,000	117,732	362,732
2014	4.00	260,000	107,442	367,442
2015	4.00	270,000	97,042	367,042
2016	4.00	280,000	86,242	366,242
2017	3.73	295,000	75,042	370,042
2018-2022	3.75-3.90	1,675,000	199,024	1,874,024
Total		\$ 3,025,000	682,524	3,707,524

General Obligation Emergency Services Bonds

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

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2013	2.60%	\$ 45,000	16,150	61,150
2014	3.10	50,000	14,980	64,980
2015	3.45	50,000	13,430	63,430
2016	3.80	50,000	11,705	61,705
2017	4.10	50,000	9,805	59,805
2018-2020	4.40-5.00	165,000	15,840	180,840
Total		\$ 410,000	81,910	491,910

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

County Bank Loan

In January 2002, the County entered into a loan agreement with a bank to borrow \$100,000 for the construction of apartments to house persons with disabilities. In October 2002, the County modified the loan agreement, extending the maturity date to October 15, 2017 and requiring semi-annual payments, including interest at 5.55% per annum. During the year ended June 30, 2012, the County paid the remaining principal of \$53,461 on the loan.

Great River Progressive Housing Corporation Bank Loan

On January 13, 2003, Great River Progressive Housing Corporation (GRPHC), general partner of the Lincoln Ridge Limited Partnership (LRLP), entered into a loan agreement with a bank to borrow \$400,000 for the construction of a low-income housing project for persons with mental disabilities. The loan bears interest at 5.41% per annum and requires semi-annual payments of \$19,555, including interest, on December 15 and June 15, with the final payment due on December 15, 2017. The amount of each principal and interest payment is equivalent to the County's payment to GRPHC pursuant to a service agreement. During the year ended June 30, 2012, GRPHC made payments on the loan, consisting of principal of \$27,980 and interest of \$11,130. The principal balance owed on the loan at June 30, 2012 was \$184,079.

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2013	5.41%	\$ 29,543	9,566	39,109
2014	5.41	31,163	7,946	39,109
2015	5.41	32,872	6,237	39,109
2016	5.41	34,664	4,446	39,110
2017	5.41	36,575	2,534	39,109
2018	5.41	19,262	523	19,785
Total		\$ 184,079	31,252	215,331

Capital Lease Purchase Agreements

The County has entered into capital lease purchase agreements to lease two sheriff's vehicles.

The following is a schedule of the future minimum lease payments, including interest at 7.10% per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2012:

Year Ending June 30,	Amount
2013	\$ 15,693
Less amount representing interest	(1,040)
Present value of net minimum lease payments	<u>\$ 14,653</u>

The book value of assets acquired under capital leases totaled \$17,401. Payments under capital lease purchase agreements for the year ended June 30, 2012 totaled \$37,331.

County Real Estate Installment Purchase Agreement

On December 7, 2010, the County entered into a real estate installment purchase agreement with Fort Madison Professional Building Association to purchase property located at 327 Avenue G, Fort Madison to be utilized as housing for persons with MH/DD disabilities. The agreement, in the amount of \$65,000, bears interest at 0% over a five year period. During the year ended June 30, 2012, the County paid the remaining \$52,000 on the agreement.

(8) E911 Loan Receivable

On April 1, 2010, the County entered into a \$500,000 loan agreement with the E911 Service Board. The E911 Service Board agreed to pay all amounts due by the County under the general obligation emergency services bonds issued on April 6, 2010. Note 7 to the financial statements displays the summary of the annual bond principal and interest requirements to maturity. The balance of the loan receivable, \$410,000 at June 30, 2012, is reported in the Debt Service fund.

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

(9) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the County is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$570,676, \$496,798 and \$445,041, respectively, equal to the required contributions for each year.

(10) Endowment

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

The County maintains the endowment principal in the Permanent, Neff Memorial Fund. Interest earned on the principal is credited to the Special Revenue, Neff Memorial Fund to be used in accordance with the endowment provisions. The balance in the Permanent Fund is reported as nonspendable for hospice care, while the balance in the Special Revenue Fund is reported as restricted for hospice care.

(11) Other Postemployment Benefits (OPEB)

Plan Description – The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 169 active and 3 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the County’s annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the County’s net OPEB obligation:

Annual required contribution	\$ 101,685
Interest on net OPEB obligation	7,520
Adjustment to annual required contribution	<u>(7,471)</u>
Annual OPEB cost	101,734
Contributions made	<u>(22,718)</u>
Increase in net OPEB obligation	79,016
Net OPEB obligation beginning of year	<u>188,000</u>
Net OPEB obligation end of year	<u>\$ 267,016</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the County contributed \$22,718 to the medical plan. Plan members eligible for benefits contributed \$18,630, or 45% of the premium costs.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 84,900	27.1%	\$ 132,948
2011	84,952	35.2	188,000
2012	101,734	22.3	267,016

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$889,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$889,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$6,468,000 and the ratio of the UAAL to covered payroll was 13.7%. As of June 30, 2012, there were no trust fund assets.

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

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

As of the July 1, 2011 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the County's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

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

Projected claim costs of the medical plan are \$1,208 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(12) Risk Management

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

(13) Employee Health Insurance Plan

The County has a fully-insured health insurance plan with Wellmark. The deductibles have been set at \$3,000 for single coverage and \$6,000 for family coverage.

The Internal Service, Employee Health Plan Trust Fund was established to account for the collection of premiums from individuals and departments which are then paid to Wellmark, as well as for the partial self-funding of a reduction in the County's health insurance plan deductibles. The deductible reduction is funded by both employee and County contributions and is administered through a service agreement with Advantage Administrators. The agreement is subject to automatic renewal provisions.

Monthly payments of service fees and plan contributions to the Employee Health Plan Trust Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Advantage Administrators and health insurance premiums are paid to Wellmark from the Employee Health Plan Trust Fund. The County's contribution for the year ended June 30, 2012 was \$1,962,099.

The self-funded deductible reduction qualifies for an exemption from the requirements of Code of Iowa Chapter 509A regarding a mini self-funded plan.

(14) Lee County EMS Ambulance, Inc.

Lee County EMS Ambulance, Inc. (EMS) provides ambulance service for Lee County. EMS reports its financial activity using a calendar year end and the income tax basis of accounting. As permitted by GASB Statement No. 34, the County has opted to present condensed financial information for its discretely presented component unit. Following is the unaudited condensed financial information for EMS for the year ended December 31, 2011.

Condensed Statement of Net Assets	
December 31, 2011	
(Unaudited)	
Assets	
Capital assets, net of accumulated depreciation	\$ 173,878
Other	27,464
Total assets	<u>201,342</u>
Liabilities	
Other	<u>8,613</u>
Net assets:	
Invested in capital assets	173,878
Unrestricted	18,851
Total net assets	<u>\$ 192,729</u>

Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets
Year ended December 31, 2011
(Unaudited)

Operating revenues:		
Patient income	\$	1,496,148
County subsidy		390,000
Other		3,850
Total operating revenues		1,889,998
Operating expenses:		
Salaries and benefits	\$	1,162,220
Insurance		261,397
Other		541,344
Operating loss		(74,963)
Non-operating revenues:		
Interest income		28
Net loss		(74,935)
Net assets beginning of year		267,664
Net assets end of year	\$	192,729

(15) Jointly Governed Organization

The County participates in the Lee County Public Safety Answering Point Association, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are included in the County's financial statements as part of Other Agency Funds because of the County's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2012:

Additions:		
Contributions from governmental units:		
Member contributions	\$	750,901
Miscellaneous		332
Total additions		751,233
Deductions:		
Salaries	\$	476,081
Benefits		227,680
Office supplies		1,803
Legal representation and publications		359
Telephone		104
Equipment		2,225
Training		7,812
Equipment rental		100
Maintenance and improvements		5,000
Data processing services		16,239
Net		13,830
Balance beginning of year		57,183
Balance end of year	\$	71,013

(16) Ambulance Subsidy Agreement

On June 21, 2011, the County entered into an agreement with Lee County EMS Ambulance Inc. (EMS). As part of this agreement, the County agreed to continue to subsidize EMS to provide ambulance services to the County. The County's obligation under this agreement commenced on July 1, 2011 and terminates on June 30, 2014. Pursuant to the agreement, the County is to pay \$390,000 per year for three years at \$32,500 per month.

(17) Construction Contract Commitment

The County entered into a construction contract totaling \$1,311,601 for construction of a bridge. At June 30, 2012, \$1,214,025 remains unpaid and will be paid as work on the project progresses.

(18) Early Childhood Iowa Area Board

The County is the fiscal agent for Children First, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. The Area Board receives state grants to administer early childhood and school ready programs. Financial transactions of the Area Board are included in the County's financial statements as part of the Other Agency Funds because of the County's fiduciary relationship with the Area Board. The Area Board's financial data for the year ended June 30, 2012 is as follows:

	Early Childhood	School Ready	Total
Revenues:			
State grants:			
Early childhood	\$ 122,702	-	122,702
Family support and parent education	-	209,686	209,686
Preschool support for low-income families	-	92,067	92,067
Quality improvement	-	42,282	42,282
Allocation for administration	6,458	11,327	17,785
Other grant programs	-	22,203	22,203
Total state grants	129,160	377,565	506,725
Interest on investments	265	555	820
Total revenues	129,425	378,120	507,545
Expenditures:			
Program services:			
Early childhood	141,293	-	141,293
Family support and parent education	-	213,041	213,041
Preschool support for low income families	-	68,303	68,303
Quality improvement	-	51,620	51,620
Other program services	-	20,004	20,004
Total program services	141,293	352,968	494,261
Administration	7,387	11,173	18,560
Total expenditures	148,680	364,141	512,821
Change in fund balance	(19,255)	13,979	(5,276)
Fund balance beginning of year	24,027	29,193	53,220
Fund balance end of year	\$ 4,772	43,172	47,944

(19) Pending Litigation and Contingent Liability

The County was the defendant in a civil case and the jury reached a verdict in February 2013 awarding the plaintiff \$186,000 in back pay and fringe benefits. Although an official judgment has not been rendered, the County is proceeding with post trial motions and, if those are denied, the County will appeal the verdict.

(20) Deficit Fund Balance

The Special Revenue, Lincoln Ridge Limited Partnership Fund had a deficit balance of \$3,681 at June 30, 2012. The deficit balance was the result of a lower occupancy rate at the apartment building. The deficit will be eliminated through efforts to increase the occupancy rate.

Lee County

Required Supplementary Information

Lee County

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2012

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 11,857,839	-	11,857,839
Interest and penalty on property tax	148,560	-	148,560
Intergovernmental	10,368,147	249,153	10,118,994
Licenses and permits	102,784	-	102,784
Charges for service	923,503	-	923,503
Use of money and property	295,430	66,659	228,771
Miscellaneous	369,122	136,586	232,536
Total receipts	24,065,385	452,398	23,612,987
Disbursements:			
Public safety and legal services	4,333,091	-	4,333,091
Physical health and social services	3,701,302	5,063	3,696,239
Mental health	6,007,123	65,117	5,942,006
County environment and education	1,325,727	243,295	1,082,432
Roads and transportation	4,632,671	-	4,632,671
Governmental services to residents	946,192	-	946,192
Administration	2,039,097	-	2,039,097
Non-program	28,358	-	28,358
Debt service	813,334	-	813,334
Capital projects	621,159	-	621,159
Total disbursements	24,448,054	313,475	24,134,579
Excess (deficiency) of receipts over (under) disbursements	(382,669)	138,923	(521,592)
Other financing sources, net	24,610	24,610	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(358,059)	163,533	(521,592)
Balance beginning of year	9,380,337	349,642	9,030,695
Balance end of year	\$ 9,022,278	513,175	8,509,103

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
11,654,713	11,654,713	203,126
111,606	111,606	36,954
8,993,237	10,304,184	(185,190)
114,200	114,200	(11,416)
938,347	938,347	(14,844)
268,580	268,755	(39,984)
144,370	162,137	70,399
<u>22,225,053</u>	<u>23,553,942</u>	<u>59,045</u>
4,464,576	4,578,374	245,283
3,917,301	3,938,542	242,303
5,225,287	6,816,519	874,513
1,212,158	1,262,783	180,351
4,543,983	4,643,983	11,312
1,080,846	1,095,846	149,654
2,252,765	2,427,883	388,786
-	28,400	42
813,033	813,533	199
827,835	827,835	206,676
<u>24,337,784</u>	<u>26,433,698</u>	<u>2,299,119</u>
(2,112,731)	(2,879,756)	2,358,164
-	-	-
(2,112,731)	(2,879,756)	2,358,164
7,166,993	7,166,993	1,863,702
<u>5,054,262</u>	<u>4,287,237</u>	<u>4,221,866</u>

Lee County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2012

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 24,065,385	96,595	24,161,980
Expenditures	24,448,054	682,595	25,130,649
Net	(382,669)	(586,000)	(968,669)
Other financing sources, net	24,610	(24,610)	-
Beginning fund balances	9,380,337	228,138	9,608,475
Ending fund balances	\$ 9,022,278	(382,472)	8,639,806

See accompanying independent auditor's report.

Lee County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2012

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

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

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Permanent Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$2,095,914. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body, as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

Disbursements exceeded the amount budgeted in the nonprogram function before the August 9, 2011 budget amendment was adopted.

Lee County

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

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2008	-	\$ 781	781	0.00%	\$ 5,879	13.30%
2011	Jul 1, 2008	-	781	781	0.00	5,879	13.30
2012	Jul 1, 2011	-	889	889	0.00	6,468	13.70

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

See accompanying independent auditor's report.

Supplementary Information

Lee County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2012

	Rural Services	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff Reserves	Special Great River Progressive Housing Corporation
Assets					
Cash, pooled investments and cash equivalents:					
County Treasurer	\$ 517,942	10,400	39,196	11,974	-
Component units	-	-	-	-	26
Receivables:					
Property tax:					
Delinquent	3,241	-	-	-	-
Succeeding year	1,118,000	-	-	-	-
Accounts	19	-	-	-	-
Accrued interest	-	5	17	-	-
Due from other governments	90,182	-	-	-	-
Total assets	\$ 1,729,384	10,405	39,213	11,974	26
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 283	-	-	-	-
Salaries and benefits payable	15,104	1,471	-	-	-
Due to other governments	4,556	-	-	-	-
Deferred revenue:					
Succeeding year property tax	1,118,000	-	-	-	-
Other	55,307	-	-	-	-
Total liabilities	1,193,250	1,471	-	-	-
Fund balances:					
Nonspendable:					
Hospice care	-	-	-	-	-
Restricted for:					
Rural services	536,134	-	-	-	-
Hospice care	-	-	-	-	-
Other purposes	-	8,934	39,213	11,974	26
Assigned for capital projects	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	536,134	8,934	39,213	11,974	26
Total liabilities and fund balances	\$ 1,729,384	10,405	39,213	11,974	26

See accompanying independent auditor's report.

Revenue									
Lincoln Ridge Limited Partnership	Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Sheriff's Forfeiture	Memorial Trust	Neff Memorial	Capital Projects	Permanent Neff Memorial	Total
-	-	-	-	7,476	255,595	24,425	39,297	82,500	988,805
64,103	112,139	174,303	162,604	-	-	-	-	-	513,175
-	-	-	-	-	-	-	-	-	3,241
-	-	-	-	-	-	-	-	-	1,118,000
11,315	350,000	-	-	-	-	-	-	-	361,334
-	-	-	-	-	112	36	17	-	187
-	-	-	-	-	-	-	-	-	90,182
75,418	462,139	174,303	162,604	7,476	255,707	24,461	39,314	82,500	3,074,924
79,099	350,000	-	-	-	2,440	-	69	-	431,891
-	2,627	-	-	-	-	-	-	-	19,202
-	-	-	-	-	4,988	-	-	-	9,544
-	-	-	-	-	-	-	-	-	1,118,000
-	-	-	-	-	-	-	-	-	55,307
79,099	352,627	-	-	-	7,428	-	69	-	1,633,944
-	-	-	-	-	-	-	-	82,500	82,500
-	-	-	-	-	-	-	-	-	536,134
-	-	-	-	-	-	24,461	-	-	24,461
42,409	109,512	174,303	162,604	7,476	248,279	-	-	-	804,730
-	-	-	-	-	-	-	39,245	-	39,245
(46,090)	-	-	-	-	-	-	-	-	(46,090)
(3,681)	109,512	174,303	162,604	7,476	248,279	24,461	39,245	82,500	1,440,980
75,418	462,139	174,303	162,604	7,476	255,707	24,461	39,314	82,500	3,074,924

Lee County

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

Year ended June 30, 2012

	Rural Services	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff Reserves	Special Great River Progressive Housing Corporation
Revenues:					
Property and other county tax	\$ 920,016	-	-	-	-
Local option sales tax	1,056,891	-	-	-	-
Intergovernmental	43,041	17,045	-	-	39,152
Charges for service	-	-	5,643	-	-
Use of money and property	-	102	190	-	-
Miscellaneous	-	-	-	7,107	-
Total revenues	2,019,948	17,147	5,833	7,107	39,152
Expenditures:					
Operating:					
Public safety and legal services	669,078	-	-	802	-
Physical health and social services	-	-	-	-	-
Mental health	-	-	-	-	39,147
County environment and education	118,450	31,750	-	-	-
Governmental services to residents	1,533	-	1,316	-	-
Capital projects	-	-	-	-	-
Total expenditures	789,061	31,750	1,316	802	39,147
Excess (deficiency) of revenues over (under) expenditures	1,230,887	(14,603)	4,517	6,305	5
Other financing uses:					
Operating transfers out	(1,310,000)	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(79,113)	(14,603)	4,517	6,305	5
Fund balances beginning of year	615,247	23,537	34,696	5,669	21
Fund balances end of year	\$ 536,134	8,934	39,213	11,974	26

See accompanying independent auditor's report.

Revenue									
Lincoln Ridge Limited Partnership	Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Sheriff's Forfeiture	Memorial Trust	Neff Memorial	Capital Projects	Permanent Neff Memorial	Total
-	-	-	-	-	-	-	-	-	920,016
-	-	-	-	-	-	-	-	-	1,056,891
-	210,000	-	-	-	-	-	-	-	309,238
-	-	-	-	-	-	-	-	-	5,643
63,453	-	2,941	266	-	1,413	439	246	-	69,050
4,105	35,137	46,728	75,410	309	27,325	-	-	-	196,121
67,558	245,137	49,669	75,676	309	28,738	439	246	-	2,556,959
-	-	-	-	-	-	-	-	-	669,880
75,198	173,484	-	5,064	-	45,052	-	-	-	298,798
-	-	-	-	-	-	-	-	-	39,147
-	-	32,176	-	-	-	-	-	-	182,376
-	-	-	-	-	-	-	-	-	2,849
-	-	-	-	-	-	-	9,926	-	9,926
75,198	173,484	32,176	5,064	-	45,052	-	9,926	-	1,202,976
(7,640)	71,653	17,493	70,612	309	(16,314)	439	(9,680)	-	1,353,983
-	-	-	-	-	-	-	-	-	(1,310,000)
(7,640)	71,653	17,493	70,612	309	(16,314)	439	(9,680)	-	43,983
3,959	37,859	156,810	91,992	7,167	264,593	24,022	48,925	82,500	1,396,997
(3,681)	109,512	174,303	162,604	7,476	248,279	24,461	39,245	82,500	1,440,980

Schedule 3

Lee County
Combining Schedule of Net Assets
Internal Service Funds

June 30, 2012

	Employee Health Plan Information			
	Supplies	Trust	Technology	Total
Assets				
Current assets:				
Cash, pooled investments and cash equivalents	\$ 35,872	1,643,381	79,687	1,758,940
Receivables:				
Accounts	176	283	-	459
Accrued interest	-	785	-	785
Due from other funds	6,823	-	-	6,823
Inventories	5,365	-	-	5,365
Noncurrent assets:				
Capital assets, net of accumulated depreciation/amortization	-	-	52,546	52,546
Total assets	48,236	1,644,449	132,233	1,824,918
Liabilities				
Current liabilities:				
Accounts payable	9,252	13,737	1,501	24,490
Salaries and benefits payable	-	239	2,566	2,805
Due to other funds	-	29	199	228
Compensated absences	-	-	4,632	4,632
Non-current liabilities:				
Net OPEB liability	-	-	2,069	2,069
Total liabilities	9,252	14,005	10,967	34,224
Net Assets				
Invested in capital assets	-	-	52,546	52,546
Unrestricted	38,984	1,630,444	68,720	1,738,148
Total net assets	\$ 38,984	1,630,444	121,266	1,790,694

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, 2012

	Employee			Total
	Supplies	Health Plan Trust	Information Technology	
Operating revenues:				
Reimbursements from operating funds and other governmental units	\$ 58,360	1,962,099	204,608	2,225,067
Reimbursements from employees and others	-	143,865	46	143,911
Miscellaneous reimbursements	-	283	2,088	2,371
Total operating revenues	<u>58,360</u>	<u>2,106,247</u>	<u>206,742</u>	<u>2,371,349</u>
Operating expenses:				
Medical and health services	-	2,008,927	-	2,008,927
Supplemental insurance	-	979	-	979
Salaries and benefits	-	-	83,316	83,316
Administrative fees, network access fees and stop-loss premium	-	84,680	-	84,680
Supplies, utilities and data processing	52,194	758	32,620	85,572
Maintenance agreements	-	-	19,047	19,047
Non-capitalized equipment	-	-	19,128	19,128
Depreciation/amortization	-	-	58,197	58,197
Total operating expenses	<u>52,194</u>	<u>2,095,344</u>	<u>212,308</u>	<u>2,359,846</u>
Operating income (loss)	6,166	10,903	(5,566)	11,503
Non-operating revenues:				
Interest income	-	9,259	-	9,259
Net income (loss)	6,166	20,162	(5,566)	20,762
Net assets beginning of year	<u>32,818</u>	<u>1,610,282</u>	<u>126,832</u>	<u>1,769,932</u>
Net assets end of year	<u>\$ 38,984</u>	<u>1,630,444</u>	<u>121,266</u>	<u>1,790,694</u>

See accompanying independent auditor's report.

Lee County

Lee County
Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2012

	Employee Supplies	Health Plan Trust	Information Technology	Total
Cash flows from operating activities:				
Cash received from operating funds and other governmental units	\$ 53,957	1,962,167	206,696	2,222,820
Cash received from employees and others	-	143,865	46	143,911
Cash paid to suppliers for services	(48,502)	(2,422,579)	(156,938)	(2,628,019)
Net cash provided (used) by operating activities	5,455	(316,547)	49,804	(261,288)
Cash flows from capital and related financing activities:				
Purchase of equipment	-	-	(28,601)	(28,601)
Cash flows from investing activities:				
Interest on investments	-	9,392	-	9,392
Increase (decrease) in cash and cash equivalents	5,455	(307,155)	21,203	(280,497)
Cash and cash equivalents beginning of year	30,417	1,950,536	58,484	2,039,437
Cash and cash equivalents end of year	\$ 35,872	1,643,381	79,687	1,758,940
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 6,166	10,903	(5,566)	11,503
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation/amortization	-	-	58,197	58,197
Changes in assets and liabilities:				
Increase in accounts receivable	(153)	(215)	-	(368)
Increase (decrease) in due from other funds	(4,250)	1	-	(4,249)
Increase in inventories	(5,354)	-	-	(5,354)
Increase (decrease) in accounts payable	9,046	(327,271)	(3,994)	(322,219)
Increase in salaries and benefits payable	-	35	312	347
Decrease in due to other funds	-	-	(37)	(37)
Increase in compensated absences	-	-	425	425
Increase in net OPEB liability	-	-	467	467
Net cash provided (used) by operating activities	\$ 5,455	(316,547)	49,804	(261,288)

See accompanying independent auditor's report.

Lee County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2012

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Schools
Assets					
Cash, pooled investments and cash equivalents:					
County Treasurer	\$ -	3,540	473,417	22,022	282,891
Other County officials	252,506	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	1,018	2,148	4,640	85,958
Succeeding year	-	218,000	459,000	-	16,389,000
Accounts	1,581	-	21	-	-
Accrued interest	-	-	-	-	-
Special assessments	-	-	-	-	-
Drainage assessments:					
Current	-	-	-	94,790	-
Future	-	-	-	242,501	-
Due from other governments	-	-	-	705,795	-
Total assets	\$ 254,087	222,558	934,586	1,069,748	16,757,849
Liabilities					
Accounts payable	\$ -	-	988	345,946	-
Salaries and benefits payable	-	-	8,979	-	-
Due to other governments	28,517	222,558	910,363	-	16,757,849
Trusts payable	225,570	-	-	-	-
Compensated absences	-	-	14,256	-	-
Bank loan	-	-	-	723,802	-
Total liabilities	\$ 254,087	222,558	934,586	1,069,748	16,757,849

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
17,771	148,849	5,445	623,063	161	306,570	483,788	2,367,517
-	-	-	-	-	-	-	252,506
5,083	56,864	1,092	-	-	-	26	156,829
1,094,000	10,876,000	343,000	-	-	-	4,000	29,383,000
-	-	-	-	-	-	-	1,602
-	-	-	-	-	-	737	737
-	-	-	-	-	-	313,283	313,283
-	-	-	-	-	-	-	94,790
-	-	-	-	-	-	-	242,501
-	-	-	-	-	-	17,424	723,219
<u>1,116,854</u>	<u>11,081,713</u>	<u>349,537</u>	<u>623,063</u>	<u>161</u>	<u>306,570</u>	<u>819,258</u>	<u>33,535,984</u>
-	-	-	-	-	-	28,011	374,945
-	-	-	-	-	-	23,628	32,607
1,116,854	11,081,713	349,537	623,063	161	-	754,579	31,845,194
-	-	-	-	-	306,570	330	532,470
-	-	-	-	-	-	12,710	26,966
-	-	-	-	-	-	-	723,802
<u>1,116,854</u>	<u>11,081,713</u>	<u>349,537</u>	<u>623,063</u>	<u>161</u>	<u>306,570</u>	<u>819,258</u>	<u>33,535,984</u>

Lee County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2012

Assets and Liabilities	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts
Balances beginning of year	\$ 227,525	211,574	867,341	239,295
Additions:				
Property and other county tax	-	217,501	457,023	-
E911 surcharges	-	-	-	-
State tax credits	-	8,614	19,696	-
Drivers license fees	-	-	-	-
Office fees and collections	722,338	-	290	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	452,133
Trusts	1,123,911	-	-	-
Miscellaneous	2	-	57	2,439,162
Total additions	1,846,251	226,115	477,066	2,891,295
Deductions:				
Agency remittances:				
To other funds	528,985	-	-	-
To other governments	188,126	215,131	409,821	2,060,842
Trusts paid out	1,102,578	-	-	-
Total deductions	1,819,689	215,131	409,821	2,060,842
Balances end of year	\$ 254,087	222,558	934,586	1,069,748

See accompanying independent auditor's report.

Schools	Community Colleges	Corpora- tions	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
16,753,595	1,075,893	10,882,854	337,637	801,602	1,801	208,432	783,825	32,391,374
16,457,707	1,090,019	11,063,699	329,935	-	-	-	4,265	29,620,149
-	-	-	-	-	-	-	93,474	93,474
674,196	43,229	312,240	14,846	-	-	-	136	1,072,957
-	-	-	-	-	69,521	-	-	69,521
-	-	-	-	-	-	-	5,103	727,731
-	-	-	-	8,143,767	-	-	-	8,143,767
-	-	-	-	-	-	-	194,411	646,544
-	-	-	-	-	-	1,213,863	1,028,909	3,366,683
-	-	-	-	-	-	-	2,086,048	4,525,269
17,131,903	1,133,248	11,375,939	344,781	8,143,767	69,521	1,213,863	3,412,346	48,266,095
-	-	-	-	279,923	48,559	-	-	857,467
17,127,649	-	11,177,080	332,881	8,042,383	22,602	-	2,302,391	41,878,906
-	1,092,287	-	-	-	-	1,115,725	1,074,522	4,385,112
17,127,649	1,092,287	11,177,080	332,881	8,322,306	71,161	1,115,725	3,376,913	47,121,485
16,757,849	1,116,854	11,081,713	349,537	623,063	161	306,570	819,258	33,535,984

Lee County

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

For the Last Ten Years

	2012	2011	2010	2009
Revenues:				
Property and other county tax	\$ 10,226,662	10,193,550	9,599,284	9,329,877
Local option sales tax	1,409,188	1,508,640	1,614,653	1,444,024
Tax increment financing	-	-	-	-
Interest and penalty on property tax	145,270	141,028	143,078	135,727
Intergovernmental	10,657,595	9,899,246	9,143,676	9,684,756
Licenses and permits	105,568	98,426	86,269	82,522
Charges for service	916,932	943,735	867,688	899,956
Use of money and property	292,716	309,502	326,842	482,356
Miscellaneous	408,049	371,510	303,476	314,528
Total	\$ 24,161,980	23,465,637	22,084,966	22,373,746
Expenditures:				
Operating:				
Public safety and legal services	\$ 4,422,016	4,185,481	3,888,632	3,689,993
Physical health and social services	3,982,400	3,882,964	3,817,068	3,913,476
Mental health	6,615,100	4,824,623	4,327,187	4,584,834
County environment and education	1,115,886	1,189,364	1,493,459	1,405,654
Roads and transportation	4,552,964	4,476,579	3,790,575	3,763,046
Governmental services to residents	958,038	903,704	893,551	961,591
Administration	2,022,340	2,305,653	2,216,598	2,036,986
Non-program	-	63,199	103,361	261,564
Debt service	813,334	818,097	747,089	736,339
Capital projects	648,571	271,567	2,199,820	3,865,711
Total	\$ 25,130,649	22,921,231	23,477,340	25,219,194

See accompanying independent auditor's report.

Modified Accrual Basis					
2008	2007	2006	2005	2004	2003
9,040,272	9,320,366	9,344,253	6,717,193	7,541,799	7,365,541
1,448,841	1,425,915	1,422,521	1,335,189	1,208,235	1,276,916
-	393,163	750,066	693,545	-	-
132,804	270,733	136,627	119,478	135,959	139,706
9,758,681	8,719,573	8,732,583	7,459,664	7,962,245	8,783,384
72,023	55,974	62,265	53,283	61,716	77,062
934,639	873,083	892,849	822,513	855,211	768,099
494,545	471,460	364,782	298,128	279,467	258,595
240,354	494,190	1,123,788	1,962,381	1,987,823	2,588,161
22,122,159	22,024,457	22,829,734	19,461,374	20,032,455	21,257,464
3,618,670	3,512,938	3,332,940	3,105,607	3,049,182	2,773,197
3,535,142	3,275,224	3,134,004	3,385,130	3,514,564	3,767,970
4,732,019	4,662,962	4,396,349	4,741,619	4,070,197	5,825,118
1,537,120	1,617,237	1,675,269	1,625,156	1,608,790	1,219,746
4,000,157	3,862,651	3,928,318	3,897,439	3,578,306	3,441,171
916,840	878,334	1,144,205	902,033	853,197	812,745
2,203,781	1,912,371	1,842,355	1,816,882	1,695,306	2,263,147
4,465,490	16,000	-	-	-	-
90,769	416,396	1,373,528	2,461,854	1,438,510	1,428,737
774,443	603,521	361,224	591,036	611,245	770,797
25,874,431	20,757,634	21,188,192	22,526,756	20,419,297	22,302,628

Schedule 9

Lee County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Labor:			
Employee Benefits Security Administration (EBSA)	17.151		\$ 1,227
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		<u>23,616</u>
U.S. Department of Transportation:			
Iowa Department of Public Health:			
Highway Planning and Construction	20.205	5881OB50	* <u>500</u>
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS-CO56(74)-8J-56	423,544
Highway Planning and Construction	20.205	ER-CO56(83)--58-56	2,406
Highway Planning and Construction	20.205	ER-CO56(84)--58-56	30,505
			* <u>456,455</u>
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 12-04 Task 12	<u>25,362</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	PAP 11-410 Task 46	<u>9,258</u>
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Public Health Emergency Preparedness	93.069	5881BT56	16,837
Public Health Emergency Preparedness	93.069	5882BT56	<u>19,173</u>
			<u>36,010</u>
Immunization Grants	93.268	5882I447	<u>17,401</u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5889OB11	<u>27,550</u>
Affordable Care Act (ACA) Maternal Infant, and Early Childhood Home Visiting Program	93.505	5882CH06	<u>108,711</u>
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Community Transformation Grants and National Dissemination and support for Community Transformation Grants	93.531	5882HP12	<u>32,518</u>
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Refugee and Entrant Assistance - State Administered Programs	93.566		<u>43</u>
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		<u>5,191</u>
Foster Care - Title IV-E	93.658		<u>8,607</u>
Adoption Assistance	93.659		<u>2,511</u>
Children's Health Insurance Program	93.767		** <u>82</u>
Medical Assistance Program	93.778		<u>22,177</u>
Social Services Block Grant	93.667		7,564
Social Services Block Grant	93.667		<u>172,107</u>
			<u>179,671</u>

Lee County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

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:			
ARRA - Child Care and Development Block Grant	93.713		1,829
Children's Health Insurance Program	93.767	5881MH15	** 284
Iowa Department of Public Health:			
Maternal and Child Health Services Block Grant to the States	93.994	5888MH15	9,708
Maternal and Child Health Services Block Grant to the States	93.994	5880MH15	46,367
			<u>56,075</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1930-DR-IA	105,135
Emergency Management Performance Grants	97.042		22,854
Total indirect			<u>1,141,840</u>
Total			<u>\$ 1,143,067</u>

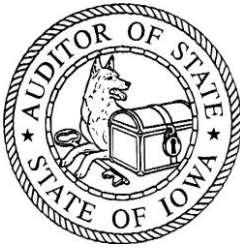
* Total for CFDA #20.205 is \$456,955.

** Total for CFDA #93.767 is \$366.

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

See accompanying independent auditor's report.

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

To the Officials of 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, 2012, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated March 11, 2013. Our report included a reference to other auditors. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Lincoln Ridge Limited Partnership, a blended component unit, as described in our report on Lee County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters reported on separately by the other auditors.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-12 through II-D-12 to be significant deficiencies.

Compliance and Other Matters

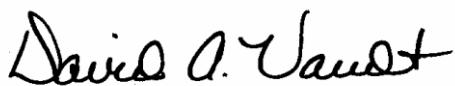
As part of obtaining reasonable assurance about whether Lee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 11, 2013

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

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Officials of Lee County:

Compliance

We have audited Lee County, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Lee County's major federal programs for the year ended June 30, 2012. Lee County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Lee County's management. Our responsibility is to express an opinion on Lee County's compliance based on our audit.

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

In our opinion, Lee County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

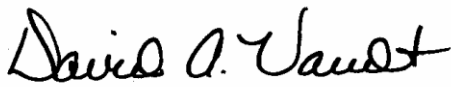
Internal Control Over Compliance

The management of Lee County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Lee County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lee County's internal control over compliance.


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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 11, 2013

Lee County
Schedule of Findings and Questioned Costs
Year ended June 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 20.205 – Highway Planning and Construction
 - 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 did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties – During our review of the internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. The following weaknesses in the offices identified were noted for which no compensating controls exist:

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

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

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

Responses –

County Recorder – Starting in January 2012 bank reconciliations are being reviewed by an independent person. Voided receipts are now reviewed. All staff members are needed to take in documents, process DNR transactions and process vital records transactions so it is necessary everyone handle receipts. The mail is frequently opened by one individual and processed by another. Two people are able to prepare and sign checks. Other than sending checks to various state offices and to the County, we rarely have checks to anyone else.

County Sheriff – My administrative assistants each have an assigned area of North or South Lee County to conduct business. There are computerized records of the receipts, transactions, reconciliations and reports. They advised me that once their deposit is prepared, the other administrative assistant can compare records. I have access to the deposit record for review prior to making the deposit. We have limited staff, but will comply with the recommendation to the best of our ability. We will implement a plan in which the Sheriff or Chief

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Deputy reviews the commissary accounts and deposits, comparing them to incoming checks and monies.

Conclusions – Responses accepted.

II-B-12 Capital Assets – The County Auditor’s Office previously maintained a capital asset listing accounting for all assets, including those items below capitalization thresholds. This listing was maintained for internal control and insurance purposes. During the year ended June 30, 2012, the County did not update the listing for additions or deletions and the listing was not distributed to each department to review for accuracy.

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

Response – Attempts have been made to get the capital asset file up-to-date. Entries have been made and reports have been sent out. Not all departments returned documents verifying the accuracy of the listing. The County Auditor will attempt to get reports out sooner and stress the importance of returning documents.

Conclusion – Response accepted.

II-C-12 County Sheriff – Although, the Sheriff’s Office prepared a year-to-date spreadsheet of receipts and disbursements, the spreadsheet did not reconcile to beginning and ending book balances. Bank reconciliations are prepared each month and are reconciled with the book balance. However, the book balance is not reconciled with the fees owed to the County, State and trusts on hand at the end of each month. Also, the Sheriff’s office does not print a listing of inmate trust balances at the end of each month.

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

Also, a listing of the inmate trust balances should be printed at the end of each month and deducted from the commissary bank account to determine how much commissary profit should be paid to the County Treasurer each month.

Response – We will visit with the Lee County Auditor for assistance in developing an annual spreadsheet and ensuring it reconciles to the bank balance. Stellar Tellar is a professional, computer based commissary system. The system automatically generates a monthly check to be deposited with the Lee County Treasurer. The Jail Administrator prints a monthly report of the balance of each inmate account.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

II-D-12 Conservation Foundation – Three Rivers Conservation Foundation, a component unit of the County, receives donations to fund various conservation projects within the County. The Foundation did not prepare annual financial statements. Only monthly financial statements were provided. The activity from the monthly financial statements did not reconcile to the ending balance on the year end balance sheet. In addition, monthly bank reconciliations were not prepared and the Foundation did not obtain images of both sides of canceled checks with the bank statements. These matters were resolved for audit purposes.

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

Response – The Three Rivers Conservation Foundation will prepare monthly bank reconciliations and annual financial statements. We will have the bank reconciliations reviewed by our accountant. We have set up with the bank to have canceled checks copied front and back to comply with the Code of Iowa.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the nonprogram function before the August 9, 2011 budget amendment was adopted.

Although the Board of Supervisors acted to increase certain budgets by amendment, the amended amounts were from the proposed budget rather than from the adopted budget.

Recommendation - The budget should have been amended from the adopted budget rather than from the proposed budget in accordance with Chapter 331.435 of the Code of Iowa.

The budget amendment should be adopted prior to incurring disbursements which cause the function budget to be exceeded.

Response - The Budget Director will double check with the Department of Management's website for the final version of the certified budget before processing the first amendment of the fiscal year. Also, the Budget Director will monitor the weekly payments to make sure no department/function goes over budget prior to a budget amendment.

Conclusion - Response accepted.

IV-B-12 Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-12 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-D-12 Business Transactions - Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Ernie Steffensmeier, County Engineer, brother owns Steffensmeier Welding	Welding	\$ 1,835
Tammy Wilson, Financial Director of Public Health, husband is a shareholder in Agrineed Inc.	Supplies and maintenance	3,135
Ernie Schiller, Board of Supervisors, daughter is Weed Commissioner	Weed eradication	6,842
Craig Burch, Sheriff's Department, wife owns C & J Burch Rentals, LLC	Rental	1,050

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

In accordance with Chapter 331.342(2)(j) of the Code of Iowa, the transactions with Steffensmeier Welding, Agrineed Inc. and the Weed Commissioner may represent conflicts of interest since the total transactions with each exceeded \$1,500 during the fiscal year.

The transaction with C & J Burch Rentals, LLC does not appear to represent a conflict of interest in accordance with Chapter 331.342(2)(j) of the Code of Iowa since the total transactions were less than \$1,500 during the fiscal year.

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

Response – The Board will require departments get at least three different quotes on services and supplies to make sure relatives of employees are not getting preference. As to weed eradication, the Board will request applications on a yearly basis.

Conclusion – Response accepted.

- IV-E-12 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be periodically reviewed to ensure the coverage is adequate for current operations.
- IV-F-12 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-12 Deposits and Investments – Except as noted in comment IV-J-12, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- IV-H-12 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- IV-I-12 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.
- IV-J-12 Friends of Public Health Investment – During fiscal year 2011, the County gave \$75,000 to IO-Mega to help aid the start-up of IO-Mega. In exchange, the County received a 1.84% ownership in the company which was granted to the Friends of Public Health, a non-profit corporation.

During fiscal year 2012, the County Health Department received a bequest of \$75,099 from an individual's estate. The Board of Health granted the bequest to the Friends of Public Health.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III Section 31 of the Iowa Constitution states, "...no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly."

The ownership interest in IO-Mega is not included in the list of allowable investments of public funds specified in Chapter 12B.10(5) of the Code of Iowa.

Recommendation – The County should consult legal counsel to determine the disposition of these matters, including requesting the return of the ownership interest and the bequest to the County.

Response – The Board of Supervisors, the Board of Health and the County Attorney will look at the option of creating a 28E agreement with the Friends of the Lee County Health Department, a non-profit corporation, to facilitate the proper control over and use of donations from private individuals/businesses given to the Lee County Health Department and later given to the Friends of the Lee County Health Department.

Conclusion – Response accepted.

IV-K-12 Deficit Fund Balance – The Special Revenue, Lincoln Ridge Limited Partnership Fund had a deficit fund balance of \$3,681 at June 30, 2012.

Recommendation – The County should investigate alternatives to eliminate this deficit balance in order to return this fund to a sound financial position.

Response – The Lincoln Ridge apartments have not been at full capacity with tenants, which has resulted in the financial deficit. The Lincoln Ridge Limited Partnership, in conjunction with the Great River Progressive Housing Board, is working to address this issue with Keyway Management (apartment management entity) and support services providers to ensure the apartments are maintained at full capacity, which should re-establish the property to a self sustaining/financially sound standing.

Conclusion – Response accepted.

Lee County

Staff

This audit was performed by:

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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