



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

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**NEWS RELEASE**

FOR RELEASE

\_\_\_\_\_ March 2, 2007

Contact: Andy Nielsen  
515/281-5834

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

The County had local tax revenue of \$35,093,309 for the year ended June 30, 2006, which included \$1,849,899 in tax credits from the state. The County forwarded \$25,202,316 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$9,890,993 of the local tax revenue to finance County operations, a 39 percent increase over the prior year. Other revenues included charges for service of \$3,040,050, operating grants, contributions and restricted interest of \$6,787,044, capital grants, contributions and restricted interest of \$2,423,122, tax increment financing of \$750,066, local option sales tax of \$1,422,521, unrestricted investment earnings of \$202,997, supplemental debt service payments to the County for tax increment urban renewal revenue bonds of \$640,125 and other general revenues of \$683,382.

Expenses for County operations totaled \$20,664,534, a 2.4 percent decrease from the prior year. Expenses included \$4,830,236 for roads and transportation, \$4,446,849 for mental health and \$3,283,584 for public safety and legal 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/reports.htm>.

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**LEE COUNTY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2006**

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**Lee County**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Joe Kowzan	Board of Supervisors	Jan 2007
Rick Larkin	Board of Supervisors	Jan 2007
Larry Kruse	Board of Supervisors	Jan 2009
George Morgan	Board of Supervisors	Jan 2009
Bob Woodruff	Board of Supervisors	Jan 2009
Anne M. Pedersen	County Auditor	Jan 2009
Mary C. Hoenig	County Treasurer	(Resigned Dec 2005)
Mary Koehler (Appointed)	County Treasurer	Nov 2006
Larry J. Holtkamp	County Recorder	Jan 2007
H.D. Buck Jones	County Sheriff	Jan 2009
Michael P. Short	County Attorney	Jan 2007
Janice C. Calvert	County Assessor	Jan 2010

**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, 2006, 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. 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.

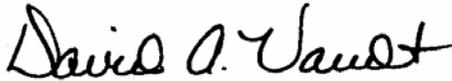
The financial statements of Lee County EMS Ambulance, Inc., the County's only discretely presented component unit, have not been audited, and we were not engaged to audit the financial statements of Lee County EMS Ambulance, Inc. as part of our audit of the County's basic financial statements. As described 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, 2005.

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, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2006 on our consideration of Lee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 46 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 1, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2006. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at June 30, 2006 by \$34.4 million.
- Lee County's net assets increased \$5,175,000 from FY05 to FY06.
- Governmental fund revenues in FY06 increased 17.3%, or approximately \$3,368,000, over FY05. Property and other county tax increased in FY06 approximately \$2,714,000 from FY05. The County collected approximately \$750,000 in tax increment financing revenue. The overall tax levy rate increased \$3.20664 from \$8.60000 to \$11.80664 per \$1,000 of taxable valuation. The tax levy rate for the General Fund, the Mental Health Fund and the Rural Services Fund all increased. The countywide and the rural services taxable property valuations decreased by \$3.0 million and \$1.3 million, respectively. This was the second consecutive year of decreasing valuations. In FY05, the countywide and the rural services taxable property valuations decreased drastically by \$103.2 million and \$44.1 million, respectively.
- Governmental fund expenditures decreased by 5.9%, or approximately \$1,339,000, from FY05 to FY06.
- The County is in the fifth 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 four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplementary information, as follows.

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's fiscal activities.
- Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the County as a whole and present an overall view of the County's finances.
- Fund Financial Statements tell how governmental services were financed in the short-term as well as what remains for future spending. Fund financial statements report Lee County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lee County acts solely as an agent or custodian for the benefit of those outside of the County (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, other than MD&A, provides information about the required budgetary comparison information.
- Other Supplementary Information provides detailed information about the nonmajor governmental and the individual agency funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the County.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

Government-wide financial statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus and report information about the County as a whole using accounting methods similar to those used by private-sector companies. 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 fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

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

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

## **FUND FINANCIAL STATEMENTS**

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

The County has three (3) kinds of funds:

- Governmental funds account for most of the County's basic services. These generally focus on how 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 General Fund, the Special Revenue Funds, such as Mental Health and Secondary Roads, the Debt Service Fund and 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 into cash. Consequently, the governmental fund statements provide a detailed short-term view of the County's general governmental operations and the basic services it provides. This information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

- The County's Internal Service Funds are accounted for as proprietary funds. These funds report activities that provide supplies and services to other County programs and activities. The County's Internal Service Funds are Supplies, Employee Health Plan Trust and Information Technology.

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

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

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

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

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

## **FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE**

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below shows the County's total net assets at June 30, 2006 and June 30, 2005.

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2006	2005
Current and other assets	\$ 18,955	16,733
Capital assets	28,952	27,436
Total assets	47,907	44,169
Long-term liabilities	1,435	2,602
Other liabilities	12,081	12,351
Total liabilities	13,516	14,953
Net assets:		
Invested in capital assets, net of related debt	28,402	26,913
Restricted	3,623	3,398
Unrestricted	2,366	(1,095)
Total net assets	\$ 34,391	29,216

Lee County's total net assets increased by approximately \$5,175,000, or 17.71%. 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. The County's improved financial position is also the product of many other factors. Total revenues increased approximately \$4,006,000 while expenditures decreased approximately \$503,000 from FY05 to FY06. Comparatively, FY05 total net assets increased by approximately \$666,000, or 2.33%, over FY04.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is at a surplus of approximately \$2,366,000.

Changes in Net Assets of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$ 3,040	2,680
Operating grants, contributions and restricted interest	6,787	5,507
Capital grants, contributions and restricted interest	2,423	2,168
General revenues:		
Property and other county tax	9,337	6,679
Tax increment financing	750	693
Penalty and interest on property tax	270	129
Gaming wager tax	86	91
State tax credits	554	434
Local option sales tax	1,422	1,335
Unrestricted investment earnings	203	148
Supplemental debt service payment for tax increment urban renewal revenue bonds	640	1,762
Gain on sale of capital assets	94	138
Other general revenues	234	70
Total revenues	25,840	21,834
Program expenses:		
Public safety and legal services	3,284	3,161
Physical health and social services	3,110	3,461
Mental health	4,447	4,597
County environment and education	1,689	1,584
Roads and transportation	4,830	4,877
Governmental services to residents	1,114	937
Administration	1,962	1,993
Non-program	106	216
Interest on long-term debt	123	342
Total expenses	20,665	21,168
Increase in net assets	5,175	666
Net assets beginning of year	29,216	28,550
Net assets end of year	\$ 34,391	29,216

For FY06, Lee County's property tax rates increased to \$10.06573 per \$1,000 of taxable valuation in the countywide levy and to \$1.74091 per \$1,000 of taxable valuation for the rural levy. The countywide taxable property valuation decreased \$3,000,000 and the rural taxable property valuation decreased \$1,300,000. The net effect of the decreases in valuations and the increase in tax rates was a net increase in property tax of approximately \$2.7 million.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Lee County completed FY06, its governmental funds reported a combined fund balance of \$5,490,243, which is more than the \$3,701,265 combined fund balance at the end of FY05.

The General Fund, the operating fund for Lee County, ended FY06 with an ending balance of \$3,351,299, compared to the prior year ending balance of \$1,696,642, an increase of \$1,654,657. Revenues increased \$2,573,434, primarily due to the increase in property tax rates and intergovernmental revenues. Expenditures had a small increase of \$16,106.

The Mental Health Fund ended FY06 with an ending balance of \$(471,177), compared to the prior year ending balance of \$(767,491), an increase of \$296,314. Revenues increased \$1,687,106, primarily due to the increase in property tax rates and intergovernmental revenues. Expenditures decreased \$134,486.

The Secondary Roads Fund ended FY06 with an ending balance of \$1,786,726, compared to the prior year ending balance of \$1,948,511, a decrease of \$161,785. Revenues decreased \$55,382, primarily due to a decrease in intergovernmental revenues. Expenditures decreased \$222,639, primarily due to a decrease in capital projects.

The Keokuk Floodwall Fund ended FY06 with an ending balance of \$21,787, compared to the prior year ending balance of \$4,989, an increase of \$16,798. Revenues decreased \$1,065,235, primarily due to the decrease in receipts from Roquette America, Inc. Expenditures decreased \$1,088,326, primarily due to additional bonds being redeemed in the prior fiscal year and the remaining lower debt balance.

## **BUDGETARY HIGHLIGHTS**

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

Over the course of the year, Lee County amended its budget once in May 2006. The amendment was made to allow an additional \$1,250,000 in principal to be paid on debt service for the Keokuk Floodwall tax increment urban renewal revenue bonds. Additional miscellaneous revenues were received from Roquette America, Inc. in order to make this payment. These bonds will be paid off during FY07.

The County's receipts were \$344,020 less than budgeted, a variance of 1.5%. The tax incremental financing collections in the Keokuk Floodwall Fund were more than originally anticipated. The County needed less miscellaneous revenues than budgeted to cover the payments for debt service.

Total disbursements were \$1,882,650 less than the amended budget, a variance of 8.06%. Actual disbursements for the physical health and social services, roads and transportation, administration and capital projects functions were \$617,184, \$99,531, \$270,045 and \$587,154, respectively, less than budgeted. This was primarily due to the change in the general relief ordinance, the timing of projects for secondary roads, building repair and maintenance and capital projects.

Even with the amendment, the County exceeded the budgeted amount in the county environment and education function for the year ended June 30, 2006. This was primarily due to an extra payroll.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

By the end of FY06, the County had invested \$29 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment, transportation equipment and administrative offices. This amount is a net increase of approximately \$1.5 million over FY05. The most significant change to capital assets during FY06 was the increase in infrastructure.

Lee County had depreciation expense of \$1.7 million in FY06 and total accumulated depreciation of \$19.2 million at June 30, 2006. Additional information about the County's capital assets is included in Note 5 to the financial statements.

### **Long-Term Debt**

At year-end, the County had approximately \$935,000 in revenue bonds and other long-term debt outstanding. This represents a decrease of 57% from the prior year.

Outstanding debt decreased as a result of revenue bond and other long-term debt payments due and paid during the year. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Lee County's outstanding general obligation debt is significantly below its constitutional debt limit of \$45.9 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 FY05 to FY06, the countywide and the rural services property taxable valuations decreased by \$3.0 million and \$1.3 million, respectively. In FY07, the countywide and the rural services property taxable valuations increased by approximately \$24.4 million and \$6.4 million, respectively.

Amounts budgeted for expenditures in the FY07 operating budget are approximately \$22.8 million, an increase of 9.6% over the final FY06 actual disbursements of \$20.8 million. In the FY07 budgeting process, the County's General Fund is expected to end FY07 with an ending fund balance of \$1.8 million, compared to the June 30, 2006 actual cash balance of \$3.3 million.

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

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

## **Basic Financial Statements**

**Exhibit A**

Lee County  
Statement of Net Assets  
June 30, 2006

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 6,906,854
Receivables:	
Property tax:	
Delinquent	51,714
Succeeding year	9,190,000
Succeeding year tax increment financing	764,000
Interest and penalty on property tax	245,830
Accounts	49,329
Accrued interest	55,668
Due from other governments	1,101,549
Inventories	585,139
Prepaid expense	5,515
Capital assets (net of accumulated depreciation)	28,952,146
	<u>47,907,744</u>
<b>Total assets</b>	
<b>Liabilities</b>	
Accounts payable	955,725
Salaries and benefits payable	125,965
Due to other governments	1,045,310
Deferred revenue:	
Succeeding year property tax	9,190,000
Succeeding year tax increment financing	764,000
Long-term liabilities:	
Portion due or payable within one year:	
Tax increment urban renewal revenue bonds	385,000
Real estate installment contract	17,265
Bank loans	26,805
Capital lease purchase agreements	82,999
Compensated absences	315,028
Portion due or payable after one year:	
Real estate installment contract	20,736
Bank loans	388,287
Capital lease purchase agreements	13,733
Compensated absences	185,530
	<u>13,516,383</u>
<b>Total liabilities</b>	

Lee County  
Statement of Net Assets  
June 30, 2006

	<u>Governmental Activities</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	28,402,321
Restricted for:	
Supplemental levy purposes	502,676
Secondary roads purposes	1,662,481
Hospice care:	
Expendable	18,732
Nonexpendable	82,500
Building repair and maintenance	927,941
Other purposes	428,289
Unrestricted	2,366,421
<b>Total net assets</b>	<u><u>\$ 34,391,361</u></u>

See notes to financial statements.

**Lee County**

Lee County  
Statement of Activities  
Year ended June 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
<b>Functions/Programs:</b>					
Governmental activities:					
Public safety and legal services	\$ 3,283,584	249,850	130,839	-	(2,902,895)
Physical health and social services	3,109,815	1,859,165	830,031	-	(420,619)
Mental health	4,446,849	135,877	2,366,135	-	(1,944,837)
County environment and education	1,688,637	24,043	405,972	-	(1,258,622)
Roads and transportation	4,830,236	28,140	2,766,589	2,423,122	387,615
Governmental services to residents	1,113,990	500,448	266,939	-	(346,603)
Administration	1,962,247	117,821	20,539	-	(1,823,887)
Non-program	105,648	124,706	-	-	19,058
Interest on long-term debt	123,528	-	-	-	(123,528)
<b>Total</b>	<b>\$ 20,664,534</b>	<b>3,040,050</b>	<b>6,787,044</b>	<b>2,423,122</b>	<b>(8,414,318)</b>
<b>General Revenues:</b>					
Property and other county tax levied for general purposes					9,336,985
Tax increment financing					750,066
Penalty and interest on property tax					270,445
Gaming wager tax					85,780
State tax credits					554,008
Local option sales tax					1,422,521
Unrestricted investment earnings					202,997
Supplemental debt service payments by Roquette America, Inc.					640,125
Gain on sale of capital assets					93,621
Miscellaneous					233,536
<b>Total general revenues</b>					<b>13,590,084</b>
Change in net assets					5,175,766
Net assets beginning of year					29,215,595
Net assets end of year					<b>\$ 34,391,361</b>
See notes to financial statements.					

Lee County  
Balance Sheet  
Governmental Funds

June 30, 2006

	Special Revenue		
	General	Mental Health	Secondary Roads
<b>Assets</b>			
Cash and pooled investments:			
County Treasurer	\$ 3,261,590	646,383	1,159,086
Bankers Trust escrow	-	-	-
Component units	-	-	-
Receivables:			
Property tax:			
Delinquent	35,701	11,666	-
Succeeding year	6,329,000	2,068,000	-
Succeeding year tax increment financing	-	-	-
Interest and penalty on property tax	245,830	-	-
Accounts	36,248	6,510	448
Accrued interest	41,086	-	-
Due from other funds	1,232	-	-
Due from other governments	627,093	3,085	205,967
Inventories	-	-	582,137
Prepaid insurance	2,015	-	-
Prepaid rent	-	-	-
<b>Total assets</b>	<b>\$ 10,579,795</b>	<b>2,735,644</b>	<b>1,947,638</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 223,093	210,383	101,824
Salaries and benefits payable	84,272	1,769	26,738
Due to other funds	5,667	1,739	93
Due to other governments	99,022	914,031	32,257
Deferred revenue:			
Succeeding year property tax	6,329,000	2,068,000	-
Succeeding year tax increment financing	-	-	-
Other	487,442	10,899	-
Total liabilities	7,228,496	3,206,821	160,912
Fund balances:			
Reserved for:			
Inventories	-	-	582,137
Supplemental levy purposes	529,480	-	-
Debt service	-	-	-
Hospice care	-	-	-
Building repair and maintenance	927,941	-	-
Medicaid administrative reimbursements	13,540	-	-
Specific purposes	-	-	-
Unreserved:			
Designated for future capital projects	500,000	-	-
Undesignated, reported in:			
General fund	1,380,338	-	-
Special revenue funds	-	(471,177)	1,204,589
Total fund balances	3,351,299	(471,177)	1,786,726
<b>Total liabilities and fund balances</b>	<b>\$ 10,579,795</b>	<b>2,735,644</b>	<b>1,947,638</b>

See notes to financial statements.

Keokuk Floodwall	Nonmajor	Total
-	507,624	5,574,683
21,787	-	21,787
-	196,147	196,147
-	4,347	51,714
-	793,000	9,190,000
764,000	-	764,000
-	-	245,830
-	4,950	48,156
-	1,565	42,651
-	-	1,232
-	265,404	1,101,549
-	-	582,137
-	-	2,015
-	3,500	3,500
785,787	1,776,537	17,825,401
-	61,858	597,158
-	12,118	124,897
-	-	7,499
-	-	1,045,310
-	793,000	9,190,000
764,000	-	764,000
-	107,953	606,294
764,000	974,929	12,335,158
-	-	582,137
-	-	529,480
21,787	11,086	32,873
-	82,500	82,500
-	-	927,941
-	-	13,540
-	34,394	34,394
-	-	500,000
-	-	1,380,338
-	673,628	1,407,040
21,787	801,608	5,490,243
785,787	1,776,537	17,825,401

**Lee County**

Lee County

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

June 30, 2006

**Total governmental fund balances (page 19)** \$ 5,490,243

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$47,942,413 and the accumulated depreciation is \$19,034,827. 28,907,586

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 606,294

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. 820,253

Long-term liabilities, including bonds payable, loans payable, contract/agreements payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (1,433,015)

**Net assets of governmental activities (page 15)** \$ 34,391,361

See notes to financial statements.

Lee County

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

Year ended June 30, 2006

	General	Special Revenue	
		Mental Health	Secondary Roads
<b>Revenues:</b>			
Property and other county tax	\$ 7,086,440	2,037,019	-
Tax increment financing	-	-	-
Interest and penalty on property tax	136,627	-	-
Intergovernmental	3,121,176	2,435,487	2,844,787
Licenses and permits	61,585	-	680
Charges for service	884,610	-	76
Use of money and property	213,114	75,746	1,455
Miscellaneous	186,148	33,121	54,693
Total revenues	11,689,700	4,581,373	2,901,691
<b>Expenditures:</b>			
Operating:			
Public safety and legal services	3,085,491	-	-
Physical health and social services	3,053,080	-	-
Mental health	-	4,285,059	-
County environment and education	946,209	-	-
Roads and transportation	-	-	3,828,447
Governmental services to residents	1,129,149	-	-
Administration	1,842,355	-	-
Debt service	-	-	-
Capital projects	20,000	-	341,224
Total expenditures	10,076,284	4,285,059	4,169,671
Excess (deficiency) of revenues over (under) expenditures	1,613,416	296,314	(1,267,980)
<b>Other financing sources (uses):</b>			
Sale of capital assets	-	-	36,195
Capital lease purchase agreement proceeds	41,241	-	70,000
Operating transfers in	-	-	1,000,000
Operating transfers out	-	-	-
Total other financing sources (uses)	41,241	-	1,106,195
Net change in fund balances	1,654,657	296,314	(161,785)
Fund balances beginning of year	1,696,642	(767,491)	1,948,511
Fund balances end of year	\$ 3,351,299	(471,177)	1,786,726

See notes to financial statements.

Keokuk Floodwall	Nonmajor	Total
-	1,643,315	10,766,774
750,066	-	750,066
-	-	136,627
-	331,133	8,732,583
-	-	62,265
-	8,163	892,849
135	74,332	364,782
640,125	209,701	1,123,788
1,390,326	2,266,644	22,829,734
-	247,449	3,332,940
-	80,924	3,134,004
-	111,290	4,396,349
-	729,060	1,675,269
-	99,871	3,928,318
-	15,056	1,144,205
-	-	1,842,355
1,373,528	-	1,373,528
-	-	361,224
1,373,528	1,283,650	21,188,192
16,798	982,994	1,641,542
-	-	36,195
-	-	111,241
-	-	1,000,000
-	(1,000,000)	(1,000,000)
-	(1,000,000)	147,436
16,798	(17,006)	1,788,978
4,989	818,614	3,701,265
21,787	801,608	5,490,243

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, 2006

**Net change in fund balances - Total governmental funds (page 23)** \$ 1,788,978

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

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

Expenditures for capital assets	\$ 843,253	
Capital assets contributed by the Iowa Department of Transportation	2,342,638	
Depreciation expense	<u>(1,719,709)</u>	1,466,182

In the Statement of Activities, the gain on the sale of capital assets is reported, whereas the proceeds from the sale increase financial resources in the governmental funds. 57,426

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	(137)	
Other	<u>361,699</u>	361,562

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

Issued	(111,241)	
Repaid	<u>1,306,240</u>	1,194,999

Compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (54,564)

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. 361,183

**Change in net assets of governmental activities (page 17)** \$ 5,175,766

See notes to financial statements.

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

	Internal Service
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 1,114,237
Accounts receivable	1,173
Accrued interest receivable	13,017
Due from other funds	6,557
Inventories	3,002
Noncurrent assets:	
Capital assets, net of accumulated depreciation	44,560
<b>Total assets</b>	1,182,546
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	358,567
Salaries and benefits payable	1,068
Due to other funds	290
Compensated absences	2,368
<b>Total liabilities</b>	362,293
<b>Net Assets</b>	
Invested in capital assets	44,560
Unrestricted	775,693
<b>Total net assets</b>	\$ 820,253

See notes to financial statements.

**Exhibit H**

## Lee County

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

Year ended June 30, 2006

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds and other governmental units		\$ 2,010,080
Reimbursements from employees and others		76,455
Miscellaneous		442
Total operating revenues		<u>2,086,977</u>
Operating expenses:		
Medical and health services	\$ 1,397,415	
Supplemental insurance	11,174	
Salaries and benefits	70,712	
Administrative fees, network access fees and stop-loss premium	158,425	
Supplies, utilities and data processing	47,414	
Maintenance agreements	8,839	
Non-capitalized equipment	16,369	
Miscellaneous	272	
Depreciation	29,185	1,739,805
Operating income		<u>347,172</u>
Non-operating revenues (expenses):		
Interest income		14,537
Interest expense		(526)
Total non-operating revenues (expenses)		<u>14,011</u>
Net income		361,183
Net assets beginning of year		<u>459,070</u>
Net assets end of year		<u>\$ 820,253</u>

See notes to financial statements.

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

	Internal Service
Cash flows from operating activities:	
Cash received from operating funds and other governmental units	\$ 2,006,404
Cash received from employees and others	75,723
Cash paid to suppliers for services	(1,648,084)
Net cash provided by operating activities	434,043
Cash flows from capital and related financing activities:	
Purchase of equipment	(21,357)
Principal paid on installment purchase agreement	(28,238)
Interest paid on installment purchase agreement	(526)
Net cash used by capital and related financing activities	(50,121)
Cash flows from investing activities:	
Interest on investments	10,188
Net increase in cash and cash equivalents	394,110
Cash and cash equivalents beginning of year	720,127
Cash and cash equivalents end of year	\$ 1,114,237
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 347,172
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	29,185
Changes in assets and liabilities:	
(Increase) in accounts receivable	(4,849)
(Increase) in inventories	(1,665)
Increase in accounts payable and due to other governments	63,728
(Decrease) in salaries and benefits payable	(1,835)
Increase in due to other funds	186
Increase in compensated absences	2,121
Net cash provided by operating activities	\$ 434,043

See notes to financial statements.

Lee County  
Statement of Fiduciary Assets and Liabilities  
Agency Funds

June 30, 2006

**Assets**

Cash and pooled investments:

County Treasurer	\$ 1,659,276
Other County officials	310,182

Receivables:

Property tax:

Delinquent	348,239
Succeeding year	23,667,000
Accounts	1,521
Accrued interest	1,074
Special assessments	112,695

**Total assets**

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26,099,987

**Liabilities**

Accounts payable	24,329
Salaries and benefits payable	5,313
Due to other governments	25,647,129
Trusts payable	407,109
Compensated absences	16,107

**Total liabilities**

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26,099,987

**Net assets**

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\$ -

See notes to financial statements.

Lee County

Notes to Financial Statements

June 30, 2006

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

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

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

A. Reporting Entity

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

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

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

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

The Lincoln Ridge Limited Partnership is an agreement between the Great River Progressive Housing Corporation (General Partner) and Lee County Development Corporation (Limited Partner) pursuant to the provisions of the Iowa Uniform Limited Partnership Act. The Partnership is established for the sole purpose of engaging in the business of constructing, acquiring, developing, owning, renting, leasing and disposing of a residential multi-dwelling housing project of up to 16 units for hard to house persons of low income. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Lincoln Ridge Limited Partnership meets the definition of a component unit that should be blended. The partnership's financial report for the year ended December 31, 2005 was used to provide the financial activity included in this report. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

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

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

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

#### Discretely Presented Component Unit

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

In accordance with criteria set forth by the Governmental Accounting Standards Board, EMS meets the definition of a component unit that should be discretely presented. Condensed financial statements for the year ended December 31, 2005 presented in Note 14 were prepared on the accrual basis of accounting. Unaudited financial statements may be obtained from Lee County EMS Ambulance, Inc., 314 South Main Street, Donnellson, IA. 50265.

### Jointly Governed Organizations

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

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

### B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

The Keokuk Floodwall Fund is used to account for tax increment financing and other revenue to be used to fund payments on debt incurred to construct the floodwall.

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 period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

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

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

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

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

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

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

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

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

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

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

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

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

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

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

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.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

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

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

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

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

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

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

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax 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, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

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

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the county environment and education function.

**(2) Cash and Pooled Investments**

The County's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. At June 30, 2006, the County had the following money market mutual fund investments:

Type	Fair Value
Fidelity Treasury Fund – Daily Money Class -	
Repurchase Agreements	\$ 92,480
U.S. Treasury Obligations	<u>6,113</u>
Total	<u>\$ 98,593</u>

Custodial credit risk: Due to the nature of investments in mutual funds, there is no assurance the investment will generate any specific rate of return and there is no assurance the accounts will not decrease in value. Mutual funds are not subject to risk categorization.

Credit risk. The County's Fidelity Treasury Fund – Daily Money Class invests entirely in U.S. Treasury Bills, U.S. Treasury Notes and Repurchase Agreements and, therefore, is not subject to credit risk.

Concentration of credit risk. The County places no limit on the amount that may be invested in any one issuer. The County's investment in the Fidelity Treasury Fund – Daily Money Class is 1.9 percent of the County's total investments.

Interest rate risk. At June 30, 2006, the effective duration of the Fidelity Treasury Fund – Daily Money Class was less than 1 month.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Mental Health	\$ 1,232
Internal Service:	General	5,667
Supplies	Special Revenue:	
	Mental Health	507
	Secondary Roads	93
	Internal Service:	
	Employee Health Plan Trust	134
	Information Technology	156
Total		<u>\$ 7,789</u>

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

**(4) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	Special Revenue: Rural Services	\$ 1,000,000

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

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 741,369	-	-	741,369
Land, road network	798,039	-		798,039
Construction in progress	1,025,842	2,605,579	(3,631,421)	-
Total capital assets not being depreciated	2,565,250	2,605,579	(3,631,421)	1,539,408
Capital assets being depreciated:				
Buildings	7,634,457	43,861	-	7,678,318
Improvements other than buildings	693,716	3,340	-	697,056
Equipment and vehicles	5,613,698	601,699	(354,578)	5,860,819
Equipment - internal service	178,103	21,357	-	199,460
Infrastructure, road network	28,535,391	3,631,421	-	32,166,812
Total capital assets being depreciated	42,655,365	4,301,678	(354,578)	46,602,465
Less accumulated depreciation for:				
Buildings	3,079,580	222,616	-	3,302,196
Improvements other than buildings	448,768	20,444	-	469,212
Equipment and vehicles	3,327,644	517,692	(343,416)	3,501,920
Equipment - internal service	125,715	29,185	-	154,900
Infrastructure, road network	10,802,542	958,957	-	11,761,499
Total accumulated depreciation	17,784,249	1,748,894	(343,416)	19,189,727
Total capital assets being depreciated, net	24,871,116	2,552,784	(11,162)	27,412,738
Governmental activities capital assets, net	\$27,436,366	5,158,363	(3,642,583)	28,952,146

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 45,002
Physical health and social services	24,084
Mental health	82,752
County environment and education	21,953
Roads and transportation	1,387,313
Governmental services to residents	3,870
Administration	183,920
Total depreciation expense - governmental activities	\$ 1,748,894

**(6) Due to Other Governments**

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

Fund	Description	Amount
General	Services	\$ 99,022
Special Revenue:		
Mental Health	Services	914,031
Secondary Roads	Services	32,257
		<u>946,288</u>
Total for governmental funds		<u>\$ 1,045,310</u>
Agency:		
County Assessor	Collections	\$ 650,853
Schools		14,530,149
Community Colleges		918,465
Corporations		8,152,450
Auto License and Use Tax		587,350
All other		807,862
Total for agency funds		<u>\$ 25,647,129</u>

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

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

	Tax Increment Urban Renewal Revenue Bonds	Real Estate Installment Contract	Bank Loan	Installment Purchase Agreement	Great River Progressive Housing Corporation Bank Loan	Capital Lease Purchase Agreements	Compen- sated Absences	Total
Balance beginning of year	\$ 1,635,000	54,327	88,481	28,238	352,016	-	443,873	2,601,935
Increases	-	-	-	-	-	111,241	482,271	593,512
Decreases	1,250,000	16,326	5,070	28,238	20,335	14,509	425,586	1,760,064
Balance end of year	<u>\$ 385,000</u>	<u>38,001</u>	<u>83,411</u>	<u>-</u>	<u>331,681</u>	<u>96,732</u>	<u>500,558</u>	<u>1,435,383</u>
Due within one year	\$ 385,000	17,265	5,355	-	21,450	82,999	315,028	827,097

**Tax Increment Urban Renewal Revenue Bonds**

The County sold \$10,260,000 of tax increment urban renewal revenue bonds dated December 1, 1994 to construct a floodwall within the limits of the County and the City of Keokuk. The bonds are payable from the income and proceeds of the Keokuk Floodwall Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. On November 1, 1994, the County entered into an agreement with the City of Keokuk and Roquette America, Inc. which provides for supplemental payments to be made to the County in the event taxes are insufficient to service the debt. During the year ended June 30, 2006, the County received payments of \$640,125 from Roquette America, Inc. to pay the principal, interest and other fees due on the bonds. The bonds are not a general obligation of the County. However, the debt is subject to the constitutional debt limitation of the County.

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

Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	6.40%	\$ 385,000	24,640	409,640

During the year ended June 30, 2006, principal of \$1,250,000 on these bonds was retired.

#### Real Estate Installment Contract

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

In August 2002, the agreement was revised. Under the revised agreement, the County will make five annual installments, including interest at a rate adjusted annually on May 31, with the final payment due May 31, 2008. During the year ended June 30, 2005, the balance on the loan increased by \$5,888 to \$89,888 due to accrued interest being capitalized. During the year ended June 30, 2006, the County paid principal of \$16,326 and interest of \$3,124 on the loan.

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

Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	5.75%	\$ 17,265	2,185	19,450
2008	5.75	20,736	1,192	21,928
Total		\$ 38,001	3,377	41,378

#### Bank Loan

In January 2002, the County entered into a loan agreement with a bank to borrow \$100,000 for the construction of apartments to house persons with disabilities. In October 2002, the County modified the loan agreement, extending the maturity date to October 15, 2017 and requiring semi-annual payments, including interest at 5.55% per annum. The balance of the loan at June 30, 2006 was \$83,411.

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

Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	5.55%	\$ 5,355	4,556	9,911
2008	5.55	5,645	4,266	9,911
2009	5.55	5,974	3,937	9,911
2010	5.55	6,310	3,601	9,911
2011	5.55	6,666	3,246	9,912
2012-2016	5.55	39,382	10,177	49,559
2017-2018	5.55	14,079	789	14,868
Total		\$ 83,411	30,572	113,983

During the year ended June 30, 2006, the County paid principal of \$5,070 on the loan.

Great River Progressive Housing Corporation Bank Loan

On January 13, 2003, the Great River Progressive Housing Corporation (GRPHC), general partner to Lincoln Ridge Limited Partnership (LRLP), entered into a loan agreement with a bank to borrow \$400,000 for the construction of a low-income housing project for persons with mental disabilities. The loan bears interest at 5.41% per annum and requires semi-annual payments on December 15 and June 15 of \$19,555, including interest, with the final payment due on December 15, 2017. The amount of each principal and interest payment is equivalent to Lee County's payment to the GRPHC pursuant to a service agreement. During the year ended June 30, 2006, the GRPHC paid principal of \$20,335 and interest of \$18,774 on the loan. The balance owed on the loan at June 30, 2006 was \$331,681.

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

Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	5.41%	\$ 21,450	17,659	39,109
2008	5.41	22,582	16,527	39,109
2009	5.41	23,864	15,245	39,109
2010	5.41	25,173	13,936	39,109
2011	5.41	26,553	12,556	39,109
2012-2016	5.41	156,221	39,324	195,545
2017-2018	5.41	55,838	3,056	58,894
Total		\$ 331,681	118,303	449,984

### Capital Lease Purchase Agreements

The County has entered into capital lease purchase agreements to lease two sheriff's vehicles and a John Deere tractor with boom mower. The following is a schedule of the future minimum lease payments, including interest at rates ranging from 5.30% to 5.65% per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2006:

Year ending June 30,	Sheriff Vehicles	John Deere Tractor	Total
2007	\$ 14,509	73,709	88,218
2008	14,509	-	14,509
Total minimum lease payments	29,018	73,709	102,727
Less amount representing interest	(2,286)	(3,709)	(5,995)
Present value of net minimum lease payments	\$ 26,732	70,000	96,732

The book value of assets acquired under capital leases totaled \$111,727. Payments under capital lease purchase agreements for the year ended June 30, 2006 totaled \$14,509.

### **(8) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$361,923, \$340,578 and \$334,279, respectively, equal to the required contributions for each year.

### **(9) Contingent Liabilities**

#### Solid Waste Disposal Bonds

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

In March 2003, the County issued \$3,400,000 of general obligation solid waste disposal refunding bonds to currently refund the 1996 general obligation solid waste disposal bonds. The County is contingently liable for the 2003 general obligation solid waste disposal refunding bonds. Bond principal and interest are paid from proceeds received from the Great River Regional Waste Authority. However, the bonds are a general obligation of the County and, if the revenues of the Regional Waste Authority in future years are not adequate, a tax will be levied on all taxable property in the County. The liability for these bonds is not recorded by the County since the bonds are to be paid from other than County resources. The transactions for the bond issue are accounted for in an Agency Fund.

Details of this contingent liability for the 2003 general obligation solid waste disposal refunding bonds at June 30, 2006 are as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	2.20%	\$ 875,000	9,625	884,625

**(10) Endowment**

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

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

**(11) Risk Management**

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

**(12) Deficit Fund Balance**

The Special Revenue, Mental Health Fund had a deficit balance of \$471,177 at June 30, 2006. The deficit will be eliminated through working with the Iowa Department of Human Services for ways to lower costs and improve efficiency.

**(13) Employee Health Insurance Plan**

The Internal Service, Employee Health Plan Trust Fund was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by both employee and County contributions and is administered through a service agreement with Wellmark. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitation of \$100,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Health Plan Trust Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark from the Employee Health Plan Trust Fund. The County's contribution for the year ended June 30, 2006 was \$1,795,713.

Amounts payable from the Employee Health Plan Trust Fund at June 30, 2006 total \$352,416, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$448,291 at June 30, 2006 and is reported as a designation of the Employee Health Plan Trust Fund net assets. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liabilities for claims for the current year is as follows:

Unpaid claims at July 1, 2005	\$ 269,530
Incurred claims (including claims incurred but not reported as of June 30, 2006)	1,480,301
Payments on claims during the fiscal year	<u>1,397,415</u>
Unpaid claims at June 30, 2006	<u>\$ 352,416</u>

**(14) Lee County EMS Ambulance, Inc.**

Lee County EMS Ambulance, Inc. (EMS) provides ambulance service for Lee County. EMS reports its financial activity using a calendar year end. As permitted by GASB Statement No. 34, the County has opted to present condensed financial information for its discretely presented component unit. Following is the unaudited condensed financial information for EMS for the year ended December 31, 2005.

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Condensed Statement of Net Assets	
December 31, 2005	
(Unaudited)	
<b>Assets</b>	
Current assets:	
Capital assets, net of accumulated depreciation	\$ 189,032
Other	374,456
<b>Total assets</b>	<b>563,488</b>
<b>Liabilities</b>	
Long-term liabilities	51,773
Other	104,818
<b>Total liabilities</b>	<b>156,591</b>
<b>Net assets:</b>	
Invested in capital assets, net of related debt	98,011
Unrestricted	308,886
<b>Total net assets</b>	<b>\$ 406,897</b>

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Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets	
Year ended December 31, 2005	
(Unaudited)	
Operating revenues:	
Patient income	\$ 1,165,172
County subsidy	390,000
Other	90
Total operating revenues	1,555,262
Operating expenses:	
Salaries and benefits	\$ 1,024,631
Insurance	138,852
Other	358,749
Operating income	33,030
Non-operating revenues (expenses):	
Interest income	13,546
Interest expense	(8,822)
Net income	37,754
Net assets beginning of year	369,143
Net assets end of year	\$ 406,897

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**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, 2006

	Actual	Less Funds not Required to be Budgeted	Net
<b>Receipts:</b>			
Property and other county tax	\$11,503,932	-	11,503,932
Interest and penalty on property tax	136,485	-	136,485
Intergovernmental	8,774,625	239,110	8,535,515
Licenses and permits	59,391	-	59,391
Charges for service	870,921	-	870,921
Use of money and property	333,395	66,376	267,019
Miscellaneous	1,113,963	90,003	1,023,960
Total receipts	<u>22,792,712</u>	<u>395,489</u>	<u>22,397,223</u>
<b>Disbursements:</b>			
Public safety and legal services	3,324,069	-	3,324,069
Physical health and social services	3,238,512	-	3,238,512
Mental health	4,297,148	73,211	4,223,937
County environment and education	1,722,296	357,317	1,364,979
Roads and transportation	3,898,951	-	3,898,951
Governmental services to residents	1,152,544	-	1,152,544
Administration	1,866,250	-	1,866,250
Debt service	1,373,528	-	1,373,528
Capital projects	342,846	-	342,846
Total disbursements	<u>21,216,144</u>	<u>430,528</u>	<u>20,785,616</u>
Excess (deficiency) of receipts over (under) disbursements	1,576,568	(35,039)	1,611,607
Other financing sources, net	36,195	-	36,195
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,612,763	(35,039)	1,647,802
Balance beginning of year	4,179,854	231,186	3,948,668
Balance end of year	<u>\$ 5,792,617</u>	<u>196,147</u>	<u>5,596,470</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
11,613,274	11,613,274	(109,342)
128,000	128,000	8,485
8,419,609	8,419,609	115,906
70,250	70,250	(10,859)
824,185	824,185	46,736
269,385	269,385	(2,366)
166,540	1,416,540	(392,580)
21,491,243	22,741,243	(344,020)
3,392,910	3,392,910	68,841
3,855,696	3,855,696	617,184
4,295,811	4,295,811	71,874
1,362,693	1,362,693	(2,286)
3,998,482	3,998,482	99,531
1,231,739	1,231,739	79,195
2,136,295	2,136,295	270,045
154,640	1,404,640	31,112
930,000	930,000	587,154
21,358,266	22,608,266	1,822,650
132,977	132,977	1,478,630
-	23,500	(12,695)
132,977	156,477	1,491,325
3,489,368	6,764,908	(2,816,240)
3,622,345	6,921,385	(1,324,915)

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Lee County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 22,792,712	37,022	22,829,734
Expenditures	21,216,144	(27,952)	21,188,192
Net	1,576,568	64,974	1,641,542
Other financing sources, net	36,195	111,241	147,436
Beginning fund balances	4,179,854	(478,589)	3,701,265
Ending fund balances	\$ 5,792,617	(302,374)	5,490,243

See accompanying independent auditor's report.

Lee County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units, the Permanent, 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 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$1,250,000. The budget amendment is reflected in the final budgeted amounts.

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

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the county environment and education function.

**Lee County**

**Other Supplementary Information**

Lee County  
Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

	Rural Services	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff Reserves	Great River Progressive Housing Corp	Special Lincoln Ridge Limited Partnership
<b>Assets</b>						
Cash and pooled investments						
County Treasurer	\$ 123,294	6,983	41,805	2,682	-	-
Component units	-	-	-	-	31	87,800
Receivables:						
Property tax:						
Delinquent	4,347	-	-	-	-	-
Succeeding year	793,000	-	-	-	-	-
Accounts	-	-	-	-	-	3,149
Accrued interest	-	32	169	-	-	-
Due from other governments	265,404	-	-	-	-	-
Prepaid rent	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 1,186,045</b>	<b>7,015</b>	<b>41,974</b>	<b>2,682</b>	<b>31</b>	<b>90,949</b>
<b>Liabilities and Fund Equity</b>						
Liabilities:						
Accounts payable	\$ 1,269	-	-	-	-	54,737
Salaries and benefits payable	9,282	-	-	-	-	-
Deferred revenue:						
Succeeding year property tax	793,000	-	-	-	-	-
Other	107,953	-	-	-	-	-
Total liabilities	911,504	-	-	-	-	54,737
Fund equity:						
Fund balances:						
Reserved for:						
Debt service	-	-	-	-	-	-
Hospice care	-	-	-	-	-	-
Specific purposes	-	-	-	-	-	34,394
Unreserved:						
Undesignated	274,541	7,015	41,974	2,682	31	1,818
Total fund equity	274,541	7,015	41,974	2,682	31	36,212
<b>Total liabilities and fund equity</b>	<b>\$1,186,045</b>	<b>7,015</b>	<b>41,974</b>	<b>2,682</b>	<b>31</b>	<b>90,949</b>

See accompanying independent auditor's report.

**Schedule 1**

Revenue									
Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Electronic Transaction	Conservation Land Acquisition	Memorial Trust	Neff Memorial	Debt Service	Permanent Neff Memorial	Total
-	-	-	3	14,873	206,021	18,422	11,041	82,500	507,624
24,708	65,220	18,388	-	-	-	-	-	-	196,147
-	-	-	-	-	-	-	-	-	4,347
-	-	-	-	-	-	-	-	-	793,000
-	-	-	-	-	1,801	-	-	-	4,950
-	-	-	1	99	909	310	45	-	1,565
-	-	-	-	-	-	-	-	-	265,404
3,500	-	-	-	-	-	-	-	-	3,500
28,208	65,220	18,388	4	14,972	208,731	18,732	11,086	82,500	1,776,537
-	-	-	-	-	5,852	-	-	-	61,858
2,836	-	-	-	-	-	-	-	-	12,118
-	-	-	-	-	-	-	-	-	793,000
-	-	-	-	-	-	-	-	-	107,953
2,836	-	-	-	-	5,852	-	-	-	974,929
-	-	-	-	-	-	-	11,086	-	11,086
-	-	-	-	-	-	-	-	82,500	82,500
-	-	-	-	-	-	-	-	-	34,394
25,372	65,220	18,388	4	14,972	202,879	18,732	-	-	673,628
25,372	65,220	18,388	4	14,972	202,879	18,732	11,086	82,500	801,608
28,208	65,220	18,388	4	14,972	208,731	18,732	11,086	82,500	1,776,537

Lee County

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

Year ended June 30, 2006

	Rural Services	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff Reserves	Great River Progressive Housing Corp	Special Lincoln Ridge Limited Partnership
<b>Revenues:</b>						
Property and other county tax	\$ 1,643,315	-	-	-	-	-
Intergovernmental	84,232	7,792	-	-	39,109	-
Charges for service	-	-	6,357	-	-	-
Use of money and property	-	138	779	-	-	60,131
Miscellaneous	-	-	-	6,202	-	5,419
<b>Total revenues</b>	<b>1,727,547</b>	<b>7,930</b>	<b>7,136</b>	<b>6,202</b>	<b>39,109</b>	<b>65,550</b>
<b>Expenditures:</b>						
<b>Operating:</b>						
Public safety and legal services	240,137	-	-	7,312	-	-
Physical health and social services	-	-	-	-	-	-
Mental health	-	-	-	-	39,109	72,181
County environment and education	392,418	15,409	-	-	-	-
Roads and transportation	99,871	-	-	-	-	-
Governmental services to residents	1,874	-	2,148	-	-	-
<b>Total expenditures</b>	<b>734,300</b>	<b>15,409</b>	<b>2,148</b>	<b>7,312</b>	<b>39,109</b>	<b>72,181</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>993,247</b>	<b>(7,479)</b>	<b>4,988</b>	<b>(1,110)</b>	<b>-</b>	<b>(6,631)</b>
<b>Other financing uses:</b>						
Operating transfers out	(1,000,000)	-	-	-	-	-
<b>Excess (deficiency) of revenues over (under) expenditures and other financing uses</b>	<b>(6,753)</b>	<b>(7,479)</b>	<b>4,988</b>	<b>(1,110)</b>	<b>-</b>	<b>(6,631)</b>
<b>Fund balances beginning of year</b>	<b>281,294</b>	<b>14,494</b>	<b>36,986</b>	<b>3,792</b>	<b>31</b>	<b>42,843</b>
<b>Fund balances end of year</b>	<b>\$ 274,541</b>	<b>7,015</b>	<b>41,974</b>	<b>2,682</b>	<b>31</b>	<b>36,212</b>

See accompanying independent auditor's report.

Revenue									
Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Electronic Transaction	Conservation Land Acquisition	Memorial Trust	Neff Memorial	Debt Service	Permanent Neff Memorial	Total
-	-	-	-	-	-	-	-	-	1,643,315
200,000	-	-	-	-	-	-	-	-	331,133
-	-	-	-	1,806	-	-	-	-	8,163
313	5,554	378	55	501	4,566	1,702	215	-	74,332
16,253	69,232	-	-	4,706	107,889	-	-	-	209,701
216,566	74,786	378	55	7,013	112,455	1,702	215	-	2,266,644
-	-	-	-	-	-	-	-	-	247,449
-	-	-	-	-	80,924	-	-	-	80,924
-	-	-	-	-	-	-	-	-	111,290
244,414	76,819	-	-	-	-	-	-	-	729,060
-	-	-	-	-	-	-	-	-	99,871
-	-	-	11,034	-	-	-	-	-	15,056
244,414	76,819	-	11,034	-	80,924	-	-	-	1,283,650
(27,848)	(2,033)	378	(10,979)	7,013	31,531	1,702	215	-	982,994
-	-	-	-	-	-	-	-	-	(1,000,000)
(27,848)	(2,033)	378	(10,979)	7,013	31,531	1,702	215	-	(17,006)
53,220	67,253	18,010	10,983	7,959	171,348	17,030	10,871	82,500	818,614
25,372	65,220	18,388	4	14,972	202,879	18,732	11,086	82,500	801,608

**Schedule 3**

Lee County  
Combining Schedule of Net Assets  
Internal Service Funds

June 30, 2006

	Supplies	Employee Health Plan Trust	Information Technology	Total
<b>Assets</b>				
Current assets:				
Cash and pooled investments	\$ 26,143	786,651	301,443	1,114,237
Accounts receivable	-	1,173	-	1,173
Accrued interest receivable	-	13,017	-	13,017
Due from other funds	6,557	-	-	6,557
Inventories	3,002	-	-	3,002
Noncurrent assets:				
Capital assets, net of accumulated depreciation	-	-	44,560	44,560
<b>Total assets</b>	<b>35,702</b>	<b>800,841</b>	<b>346,003</b>	<b>1,182,546</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	5,300	352,416	851	358,567
Salaries and benefits payable	-	-	1,068	1,068
Due to other funds	-	134	156	290
Compensated absences	-	-	2,368	2,368
Total liabilities	5,300	352,550	4,443	362,293
<b>Net Assets</b>				
Invested in capital assets	-	-	44,560	44,560
Unrestricted	30,402	448,291	297,000	775,693
	<b>\$ 30,402</b>	<b>448,291</b>	<b>341,560</b>	<b>820,253</b>

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, 2006

	Supplies	Employee Health Plan Trust	Information Technology	Total
Operating revenues:				
Reimbursements from operating funds and other governmental units	\$ 38,156	1,795,713	176,211	2,010,080
Reimbursements from employees and others	-	76,455	-	76,455
Miscellaneous	-	47	395	442
Total operating revenues	<u>38,156</u>	<u>1,872,215</u>	<u>176,606</u>	<u>2,086,977</u>
Operating expenses:				
Medical and health services	-	1,397,415	-	1,397,415
Supplemental insurance	-	11,174	-	11,174
Salaries and benefits	-	-	70,712	70,712
Administrative fees, network access fees and stop-loss premium	-	158,425	-	158,425
Supplies, utilities and data processing	37,382	1,176	8,856	47,414
Maintenance agreements	-	-	8,839	8,839
Non-capitalized equipment	-	-	16,369	16,369
Miscellaneous	-	272	-	272
Depreciation	-	-	29,185	29,185
Total operating expenses	<u>37,382</u>	<u>1,568,462</u>	<u>133,961</u>	<u>1,739,805</u>
Operating income	<u>774</u>	<u>303,753</u>	<u>42,645</u>	<u>347,172</u>
Non-operating revenues (expenses):				
Interest income	-	14,537	-	14,537
Interest expense	-	-	(526)	(526)
Total non-operating revenues (expenses)	<u>-</u>	<u>14,537</u>	<u>(526)</u>	<u>14,011</u>
Net income	<u>774</u>	<u>318,290</u>	<u>42,119</u>	<u>361,183</u>
Net assets beginning of year	<u>29,628</u>	<u>130,001</u>	<u>299,441</u>	<u>459,070</u>
Net assets end of year	<u>\$ 30,402</u>	<u>448,291</u>	<u>341,560</u>	<u>820,253</u>

See accompanying independent auditor's report.

**Lee County**

Lee County  
Combining Schedule of Cash Flows  
Internal Service Funds

Year ended June 30, 2006

	Supplies	Employee Health Plan Trust	Information Technology	Total
<b>Cash flows from operating activities:</b>				
Cash received from operating funds and other governmental units	\$ 34,480	1,795,713	176,211	2,006,404
Cash received from employees and others	-	75,328	395	75,723
Cash paid to suppliers for services	(33,922)	(1,498,409)	(115,753)	(1,648,084)
Net cash provided by operating activities	558	372,632	60,853	434,043
<b>Cash flows from capital and related financing activities:</b>				
Purchase of equipment	-	-	(21,357)	(21,357)
Principal paid on installment purchase agreement	-	-	(28,238)	(28,238)
Interest paid on installment purchase agreement	-	-	(526)	(526)
Net cash used by capital and related financing activities	-	-	(50,121)	(50,121)
<b>Cash flows from investing activities:</b>				
Interest on investments	-	10,188	-	10,188
Net increase in cash and cash equivalents	558	382,820	10,732	394,110
Cash and cash equivalents beginning of year	25,585	403,831	290,711	720,127
Cash and cash equivalents end of year	\$ 26,143	786,651	301,443	1,114,237
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ 774	303,753	42,645	347,172
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	-	-	29,185	29,185
Changes in assets and liabilities:				
(Increase) in accounts and other receivables	(3,676)	(1,173)	-	(4,849)
(Increase) in inventories	(1,665)	-	-	(1,665)
Increase (decrease) in accounts payable and due to other governments	5,125	69,926	(11,323)	63,728
(Decrease) in salaries and benefits payable	-	-	(1,835)	(1,835)
Increase in due to other funds	-	126	60	186
Increase in compensated absences	-	-	2,121	2,121
Net cash provided by operating activities	\$ 558	372,632	60,853	434,043

See accompanying independent auditor's report.

Lee County  
 Combining Schedule of Fiduciary Assets and Liabilities  
 Agency Funds

June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Solid Waste Debt Service
<b>Assets</b>					
Cash and pooled investments:					
County Treasurer	\$ -	3,318	307,815	14,501	6,822
Other County officials	183,761	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	1,024	2,044	-	-
Succeeding year	-	182,000	362,000	-	-
Accounts	446	-	-	-	-
Accrued interest	358	-	-	-	-
Special assessments	-	-	-	42,939	-
<b>Total assets</b>	<b>\$ 184,565</b>	<b>186,342</b>	<b>671,859</b>	<b>57,440</b>	<b>6,822</b>
<b>Liabilities</b>					
Accounts payable	\$ -	-	171	9,955	-
Salaries and benefits payable	-	-	4,728	-	-
Due to other governments	29,169	186,342	650,853	47,485	6,822
Trusts payable	155,396	-	-	-	-
Compensated absences	-	-	16,107	-	-
<b>Total liabilities</b>	<b>\$ 184,565</b>	<b>186,342</b>	<b>671,859</b>	<b>57,440</b>	<b>6,822</b>

See accompanying independent auditor's report.

Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Payee Accounts	Other	Total
251,863	16,109	137,490	4,583	587,350	-	329,425	1,659,276
-	-	-	-	-	126,421	-	310,182
88,286	6,356	248,960	1,532	-	-	37	348,239
14,190,000	896,000	7,766,000	266,000	-	-	5,000	23,667,000
-	-	-	-	-	-	1,075	1,521
-	-	-	-	-	-	716	1,074
-	-	-	-	-	-	69,756	112,695
14,530,149	918,465	8,152,450	272,115	587,350	126,421	406,009	26,099,987
-	-	-	-	-	-	14,203	24,329
-	-	-	-	-	-	585	5,313
14,530,149	918,465	8,152,450	272,115	587,350	-	265,929	25,647,129
-	-	-	-	-	126,421	125,292	407,109
-	-	-	-	-	-	-	16,107
14,530,149	918,465	8,152,450	272,115	587,350	126,421	406,009	26,099,987

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

Year ended June 30, 2006

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Solid Waste Debt Service
<b>Assets and Liabilities</b>					
Balances beginning of year	\$ 173,220	179,286	697,905	60,459	8,822
Additions:					
Property and other county tax	-	181,156	359,090	-	-
E911 surcharges	-	-	-	-	-
State tax credits	-	10,255	24,052	-	-
Drivers license fees	-	-	-	-	-
Office fees and collections	728,810	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	95,863	-
Trusts	1,178,411	-	-	-	-
Miscellaneous	-	-	1,714	30,002	890,795
Total additions	1,907,221	191,411	384,856	125,865	890,795
Deductions:					
Agency remittances:					
To other funds	535,297	-	-	-	-
To other governments	200,679	184,355	410,902	128,884	892,795
Trusts paid out	1,159,900	-	-	-	-
Total deductions	1,895,876	184,355	410,902	128,884	892,795
Balances end of year	\$ 184,565	186,342	671,859	57,440	6,822

See accompanying independent auditor's report.

Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
13,688,589	883,105	7,711,179	263,334	560,667	-	47,610	456,176	24,730,352
14,277,960	891,115	7,938,137	253,879	-	-	-	5,088	23,906,425
-	-	-	-	-	-	-	75,303	75,303
772,639	49,825	377,599	16,230	-	-	-	45,291	1,295,891
-	-	-	-	-	101,578	-	-	101,578
-	-	-	-	-	-	-	6,369	735,179
-	-	-	-	6,858,659	-	-	-	6,858,659
-	-	-	-	-	-	-	73,127	168,990
-	-	-	-	-	-	787,811	672,599	2,638,821
-	-	-	-	-	-	-	89,088	1,011,599
15,050,599	940,940	8,315,736	270,109	6,858,659	101,578	787,811	966,865	36,792,445
-	-	-	-	266,746	59,038	-	-	861,081
14,209,039	905,580	7,874,465	261,328	6,565,230	42,540	-	231,929	31,907,726
-	-	-	-	-	-	709,000	785,103	2,654,003
14,209,039	905,580	7,874,465	261,328	6,831,976	101,578	709,000	1,017,032	35,422,810
14,530,149	918,465	8,152,450	272,115	587,350	-	126,421	406,009	26,099,987

**Schedule 8**

## Lee County

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

For the Last Seven Years

	Modified Accrual Basis						
	2006	2005	2004	2003	2002	2001	2000
<b>Revenues:</b>							
Property and other county tax	\$ 10,766,774	8,052,382	8,750,034	8,642,457	8,433,268	7,983,602	7,464,452
Tax increment financing	750,066	693,545	-	-	-	573,982	579,791
Interest and penalty on property tax	136,627	119,478	135,959	139,706	150,239	123,622	110,114
Intergovernmental	8,732,583	7,459,664	7,962,245	8,783,384	8,261,606	7,525,424	7,127,774
Licenses and permits	62,265	53,283	61,716	77,062	71,271	91,232	105,994
Charges for service	892,849	822,513	855,211	768,099	880,739	802,788	771,701
Use of money and property	364,782	298,128	279,467	258,595	388,840	588,654	575,235
Miscellaneous	1,123,788	1,962,381	1,987,823	2,588,161	1,673,160	1,457,648	1,778,115
<b>Total</b>	<b>\$ 22,829,734</b>	<b>19,461,374</b>	<b>20,032,455</b>	<b>21,257,464</b>	<b>19,859,123</b>	<b>19,146,952</b>	<b>18,513,176</b>
<b>Expenditures:</b>							
<b>Operating:</b>							
Public safety and legal services	\$ 3,332,940	3,105,607	3,049,182	2,773,197	2,722,325	2,531,644	2,510,998
Physical health and social services	3,134,004	3,385,130	3,514,564	3,767,970	3,630,793	3,426,169	3,044,325
Mental health	4,396,349	4,741,619	4,070,197	5,825,118	4,734,145	4,099,546	4,280,737
County environment and education	1,675,269	1,625,156	1,608,790	1,219,746	1,072,142	897,378	824,012
Roads and transportation	3,928,318	3,897,439	3,578,306	3,441,171	3,576,503	3,225,883	3,071,800
Governmental services to residents	1,144,205	902,033	853,197	812,745	788,302	743,819	650,298
Administration	1,842,355	1,816,882	1,695,306	2,263,147	2,051,982	2,306,705	2,464,100
Non-program	-	-	-	-	-	100,000	-
Debt service	1,373,528	2,461,854	1,438,510	1,428,737	1,427,498	1,577,169	1,547,987
Capital projects	361,224	591,036	611,245	770,797	275,207	577,356	138,207
<b>Total</b>	<b>\$ 21,188,192</b>	<b>\$22,526,756</b>	<b>20,419,297</b>	<b>22,302,628</b>	<b>20,278,897</b>	<b>19,485,669</b>	<b>18,532,464</b>

See accompanying independent auditor's report.

**Lee County**

**Schedule 9**

Lee County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for Food Stamp Program	10.561		\$ 21,175
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	04-WS-052-01	20,000
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS-C056(62)--8J-56	80,484
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 05-04 Task 25	5,434
State and Community Highway Safety	20.600	PAP 06-04 Task 25	9,572
			15,006
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	PAP 05-163 Task 43	3,847
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	PAP 05-163 Task 38	8,640
			12,487
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		3,874
U.S. Department of Education:			
Iowa Department of Education:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	05-CPSE-22	1,166
U.S. Election Assistance Commission:			
Iowa Secretary of State:			
Help America Vote Act Requirements Payments	90.401		227,725
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Public Health and Social Security Services Emergency Fund	93.003		3,293
Consolidated Knowledge Development and Application (KD&A) Program	93.230	5885IP16	28,316
Immunization Grants	93.268	5885I453	1,865
Immunization Grants	93.268	5886I453	1,574
			3,439
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5886EHC5	7,296
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5886HWG16	29,058

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

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Des Moines County Public Health:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5883BT56	40,031
			<u>76,385</u>
Maternal and Child Health Services Block Grant to the States	93.994	5885MC05	4,706
Maternal and Child Health Services Block Grant to the States	93.994	5886MH15	21,763
Maternal and Child Health Services Block Grant to the States	93.994	5886DH02	20,660
			<u>47,129</u>
Iowa Department of Elder Affairs:			
Southeast Iowa Area Agency on Aging, Inc:			
National Family Caregiver Support	93.052	IIIE OOA Funds	7,799
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		25,593
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		6,093
Foster Care - Title IV-E	93.658		13,151
Adoption Assistance	93.659		3,240
Medical Assistance Program	93.778		33,934
Social Services Block Grant	93.667		16,413
Social Services Block Grant	93.667		173,031
			<u>189,444</u>
Iowa Secretary of State:			
Voting Access for Individuals with Disabilities - Grants to States	93.617	06-HAVA-56-001 to 010	13,885
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
State Domestic Preparedness Equipment Support Program	97.004		136,241
Emergency Management Performance Grants	97.042		5,785
			<u>975,644</u>
Total Indirect			<u>\$ 975,644</u>

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

See accompanying independent auditor's report.

**Lee County**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

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

To the Officials of Lee County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lee County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated November 1, 2006. 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.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

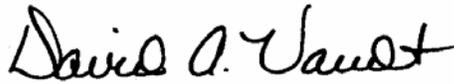
Compliance and Other Matters

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

November 1, 2006

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

**Lee County**



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

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

To the Officials of Lee County:

Compliance

We have audited the compliance of Lee County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. 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.

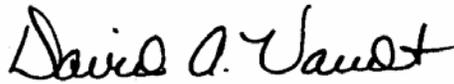
In our opinion, Lee County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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.

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

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 1, 2006

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

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (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 of the major programs.
- (f) The audit disclosed no instances of non-compliance which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were
  - CFDA Number 20.205 – Highway Planning and Construction
  - CFDA Number 90.401 – Help America Vote Act Requirements Payments.
  - CFDA Number 93.667 – Social Services Block Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lee County did not qualify as a low-risk auditee.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

**REPORTABLE CONDITIONS:**

II-A-06 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:

Auditor's Office – Payroll is not reviewed by an independent person for propriety.

Treasurer's Office – The same individual who prepares the summary of delinquent taxes also performs the year end reconciliation of delinquent taxes. The reconciliation is not currently reviewed and initialed by an independent person. Also the same individual is responsible for the detailed record keeping and custody of investments. No independent review of investment records or inspection of investments is done. In addition, bank reconciliations are not always reviewed by an independent person.

Recorder's Office – The same individual who prepares monthly bank reconciliations for North Lee is, at times, responsible for handling and recording receipts. This individual also prepares and signs checks for North Lee. In addition, bank reconciliations are not always reviewed by an independent person.

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 the amount deposited to the receipt records. Also, one individual prepares and records deposits and maintains the checkbook for the Forfeiture account. Bank reconciliations are not always reviewed by an independent person.

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

County Auditor Response – A procedure to have payroll reviewed by the accounts payable clerk was implemented in fiscal year 2006. In May of 2006, the payroll clerk resigned and the position was not filled. The payroll duties were then transferred to the accounts payable clerk. This office will reinstate the payroll review procedure by an independent person to the extent possible.

County Treasurer Response – As the newly elected Treasurer, I will make sure these papers and bank statements are reconciled by my staff and then reviewed and signed off by me in a timely manner. Concerning our CD and investment procedures, as the Treasurer, I will take care of all CD's and the First Deputy will be in charge of the investment ledger. We will work this together.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

County Recorder Response – This review process was in place when we had a deputy recorder in North Lee. We no longer have a deputy recorder in North Lee. The County Recorder is working on ways to re-establish this review process with existing personnel.

County Sheriff Response – Either the Sheriff or Chief Deputy will once or twice a month review a couple of commissary sheets with the bank deposits. The forfeiture account has been closed out and deposited in an account at the Lee County Treasurer's office. Either the Sheriff or Chief Deputy will review and initial bank reconciliations.

Conclusions – Responses accepted.

II-B-06 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, 2006, 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 – Due to the transfer of the Budget Director's position from the Auditor's department to the Board of Supervisor's department in September 2003, this office no longer has the resources to provide this service on behalf of the Board.

Conclusion – Response acknowledged. The County should ensure the capital assets listing is updated annually and compared to actual assets for accuracy.

II-C-06 Sheriff's Forfeiture Account – The County Sheriff maintains a forfeiture account to collect and expend forfeiture moneys. Although the activity in the account is reported semi-annually to the County Budget Director for inclusion in the County's financial activity and budget, expenditures from this account are not made by County claim and are not approved by the Board of Supervisors.

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

Response – The County Sheriff's forfeiture account was deposited in an account at the Lee County Treasurer's office prior to the exit conference.

Conclusion – Response accepted.

II-D-06 Capital Asset Policy – The County does not have a written capital asset policy which includes procedures for the disposal of capital assets.

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

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response – We do have a reasonably functioning policy which has never been committed to writing. There are many factors to consider along with the policy, such as procedures and the related forms necessary to facilitate the process. We will accomplish this by June 30, 2007.

Conclusion – Response accepted.

II-E-06 Credit Card Policy – The County has credit cards available for use by various departments. The County does not have a written policy regarding the issuance and use of these credit cards.

Recommendation – The Board should adopt a written policy governing the use of County owned credit cards. The policy should specify the individuals who are authorized to use the cards, the types of expenses allowed, the documentation required to support the expense incurred and the requirement to pay the total balance monthly to ensure finance charges are not incurred. Board policy should prohibit the use of County-owned credit cards for personal expenses.

Response – A Credit Card Policy has been included in the new Lee County Personnel Policy which became effective October 1, 2006.

Conclusion – Response accepted.

II-F-06 Protective Payee Operations – Lee County has been designated “protective payee” by the Social Security Administration, the Iowa Department of Human Services and/or the courts for approximately 120 clients who need assistance in managing their day to day finances. Several protective payee accounts were not included on the activity summary spreadsheet. Also, checks written from payee accounts are prepared, approved, signed and mailed by the same person. Documentation of bank reconciliations performed for each payee account is not maintained.

Recommendation – The County should develop procedures to ensure all payee accounts are included on the activity summary spreadsheet. Checks should not be signed by the same person who prepared them and documentation of monthly bank reconciliations performed for each payee account should be retained.

Response – It is my understanding that these were inactive accounts. We will address this by closing inactive accounts and compare online banking accounts with the activity summary spreadsheet prior to submission. Separation of duties is difficult due to limited number of employees. However, we will be arranging for the “mailed out” checks at the beginning of the month to be handled by a secretary in addition to the payee. Also, the incoming check log will be maintained on a computer spreadsheet generated by the secretary. A monthly account reconciliation form has been developed that will accompany each bank statement when balanced by the (other) payee or supervisor. This form was put to use successfully with the reconciliation of the September 2006 bank statements.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

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

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the county environment and education function.

Recommendation – Chapter 331.435 of the Code of Iowa authorizes the Board of Supervisors to adopt a budget amendment in the same manner as the original budget. Such increases or decreases should be made before disbursements are allowed to exceed the budget.

Response – This was a one-time event. There was an extra payroll due to how the biweekly payroll dates fell within the fiscal year under audit. Traditionally, the County does manage budget amendments in a timely manner.

Conclusion – Response accepted.

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

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

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

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

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

Although minutes of Board proceedings were published, certain minutes were not published within the time period required by Chapter 349.18 of the Code of Iowa. Also handwritten warrants were not published along with regular claims in the minutes.

Recommendation – The County should ensure the minutes are published as required and handwritten warrants are published along with regular claims.

Response – The Board holds a regular meeting on a weekly basis. Each week the minutes are approved by motion for the previous week. Immediately following the Board meeting, the minutes are emailed to the newspaper for publication. When the Board holds weekly meetings, this office meets the requirements of Chapter 349.18 of the Code of Iowa. There are weeks the Board does not hold a regular meeting and therefore the minutes are not approved for two weeks. On these occasions, this office is unable to furnish a copy of the proceedings to be published, within one week following the adjournment of the Board. I will make the Board aware of this legal requirement. During FY2006/07, this office became aware that handwritten warrants were not being automatically transferred along with the claims approval list to the staff member completing the weekly minutes. Once it was discovered, this omission was immediately corrected.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County’s investment policy were noted.
- IV-H-06 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- IV-I-06 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.
- Disbursements during the year ended June 30, 2006 for the County Extension Office did not exceed the amount budgeted.
- IV-J-06 Financial Condition – The Special Revenue, Mental Health Fund had a deficit balance of \$471,177 at June 30, 2006.
- Recommendation – The County should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.
- Response – This is an improved position by more than \$290,000 over the prior fiscal year. Some of the activity in this fund such as mandated spending, requirements for tax levy guidelines and unpredictable year end payables do make the ending accrual fund balance a bit of a challenge. We will consider continuing to levy maximum until this fund has a positive accrual fund balance.
- Conclusion – Response accepted.
- IV-K-06 Emergency Management Commission Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted.
- Recommendation – Chapter 24.9 of the Code of Iowa authorizes the Commission to adopt a budget amendment in the same manner as the original budget. Such increases or decreases should be made before disbursements are allowed to exceed the budget.
- Response – This was an oversight on my (Emergency Management Director) part. I am aware of the provisions of Chapter 24.9 and this should not reoccur in the future.
- Conclusion – Response accepted.
- IV-L-06 Excess Debt Service Balance – The Debt Service Fund balance at June 30, 2006 was \$11,086. However, the County has no outstanding general obligation debt and the project for which the debt was originally issued has been completed.
- Recommendation – The County should review Chapter 331.430(3) of the Code of Iowa which provides guidance on the use of excess moneys remaining after the retirement of all indebtedness payable from the Debt Service Fund.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response – The Debt Service Fund was used to make payments on the Jail Bonds (i.e. correctional facility). These bonds have been paid off. The County is looking at the future needs of our correctional facility. It is anticipated that the remaining balance in this fund will go toward the cost of issuance of new bonds for the correctional facility. We will be confirming with a bonding attorney to ensure proper use of these funds.

Conclusion – Response accepted.

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Lee County

Staff

This audit was performed by:

Suzanne R. Hanft, CPA, Manager  
Brian R. Brustkern, CPA, Senior Auditor II  
Phil J. Cloos, Staff Auditor  
Carmen K. Kutcher, Staff Auditor  
Bradley A. Meisterling, Staff Auditor  
Andrew N. Pulford, Staff Auditor  
Shelley M. Allen, Assistant Auditor  
Michael P. Piehl, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State