



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

March 12, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on Lee County, Iowa.

The County had local tax revenue of \$41,269,366 for the year ended June 30, 2013, which included \$1,738,922 in tax credits from the state. The County forwarded \$30,466,164 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$10,803,202 of the local tax revenue to finance County operations, a 2.2% increase over the prior year. Other revenues included charges for service of \$3,574,410, operating grants, contributions and restricted interest of \$5,949,083, capital grants, contributions and restricted interest of \$1,168,370, local option sales tax of \$1,441,709, unrestricted investment earnings of \$103,448 and other general revenues of \$386,674.

Expenses for County operations for the year ended June 30, 2013 totaled \$22,702,451, a 13.5% decrease from the prior year. Expenses included \$6,055,702 for roads and transportation, \$4,329,380 for public safety and legal services and \$4,223,615 for physical health and social services.

A copy of the audit report is available for review in the County Auditor's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1310-0056-B00F.pdf>.

###

LEE COUNTY

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

JUNE 30, 2013

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-7
Management’s Discussion and Analysis		9-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Position	A	16-17
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20-21
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	D	23
Statement of Revenues, Expenditures and Changes in Fund Balances	E	24-25
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	26
Proprietary Fund Financial Statements:		
Statement of Net Position	G	27
Statement of Revenues, Expenses and Changes in Fund Net Position	H	28
Statement of Cash Flows	I	29
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Assets and Liabilities – Agency Funds	J	30
Notes to Financial Statements		31-49
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds		52-53
Budget to GAAP Reconciliation		54
Notes to Required Supplementary Information – Budgetary Reporting		55
Schedule of Funding Progress for the Retiree Health Plan		56
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	58-59
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	60-61
Internal Service Funds:		
Combining Schedule of Net Position	3	62
Combining Schedule of Revenues, Expenditures and Changes in Fund Net Position	4	63
Combining Schedule of Cash Flows	5	65
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	6	66-67
Combining Schedule of Changes in Fiduciary Assets and Liabilities	7	68-69
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	8	70-71
Schedule of Expenditures of Federal Awards	9	72-73
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		75-76
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133		79-80
Schedule of Findings and Questioned Costs		81-89
Staff		90

Lee County

Officials

(Before January 2013)

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

(After January 2013)

Rick Larkin	Board of Supervisors	Jan 2015
Ernest Schiller	Board of Supervisors	Jan 2015
Ron Fedler	Board of Supervisors	Jan 2017
Gary Folluo	Board of Supervisors	Jan 2017
Matt Pflug	Board of Supervisors	Jan 2017
Denise Fraise	County Auditor	Jan 2017
Janet Strunk	County Treasurer	Jan 2015
Nancy Booten	County Recorder	Jan 2015
Jim Sholl	County Sheriff	Jan 2017
Michael P. Short	County Attorney	Jan 2015
Teresa Murray	County Assessor	Jan 2016

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report

To the Officials of Lee County:

Report on the Financial Statements

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, 2013, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, which represent less than 1% of the assets, net position and revenues of the aggregate remaining funds. 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 Lincoln Ridge Limited Partnership blended component unit, is based solely on the report of the other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Disclaimer of Opinion

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. Accordingly, 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, 2012.

Unmodified Opinions

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 as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 9 through 14 and 52 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary Information

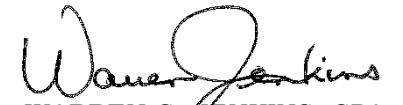
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee County's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards by us and the other auditors. In our opinion, based on our audit, the procedures performed described above and the report of the other auditors, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 24, 2014 on our consideration of Lee County's internal control over financial reporting and on 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 in considering Lee County's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 24, 2014

Lee County

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lee County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the County is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- The County's governmental activities assets exceeded liabilities (net position) at June 30, 2013 by approximately \$40.2 million.
- Lee County's net position increased approximately \$725,000 from June 30, 2012 to June 30, 2013.
- Governmental activities revenues in fiscal year 2013 decreased 12.9%, or approximately \$3,457,000, from fiscal year 2012. Operating and capital grants, contributions and restricted interest decreased approximately \$3,790,000 from fiscal year 2012. The decrease is due primarily to the County receiving less mental health funding from the State of Iowa and less infrastructure being contributed by the Iowa Department of Transportation compared to the prior year.
- Governmental activities expenses decreased 13.5%, or approximately \$3,550,000, from fiscal year 2012 to fiscal year 2013. The decrease in expenses is due primarily to a decrease in mental health expenses during fiscal year 2013 due to the change in the method the State uses to pay for Medicaid reimbursed expenses.
- The County is in the twelfth year of implementation of the Lee County Economic Development Plan. The goal of this plan is to bring much needed jobs to the County, thus employing our citizens and increasing the County's tax base. The Lee County Board of Supervisors, other than budgetary, allows this department to function with considerable autonomy.

USING THIS ANNUAL REPORT

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

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

- Required Supplementary Information further explains and supports the financial statements with a comparison of the County’s budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the nonmajor governmental and the individual Internal Service and Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the County.

REPORTING THE COUNTY’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The Statement of Net Position includes all of the County’s assets and liabilities, with the difference between the two reported as “net position”. Over time, increases or decreases in the County’s net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

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

Fund Financial Statements

The County has three kinds of funds:

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Lee County's combined net position was relatively unchanged from a year ago, increasing approximately \$725,000 to approximately \$40.2 million. The analysis that follows focuses on the changes in the net position of governmental activities.

Net Position of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2013	2012
Current and other assets	\$ 23,200	\$ 23,971
Capital assets	37,307	37,817
Total assets	60,507	61,788
Long-term liabilities	8,542	9,001
Other liabilities	11,809	13,356
Total liabilities	20,351	22,357
Net position:		
Net investment in capital assets	32,693	32,937
Restricted	6,104	5,826
Unrestricted	1,359	668
Total net position	\$ 40,156	\$ 39,431

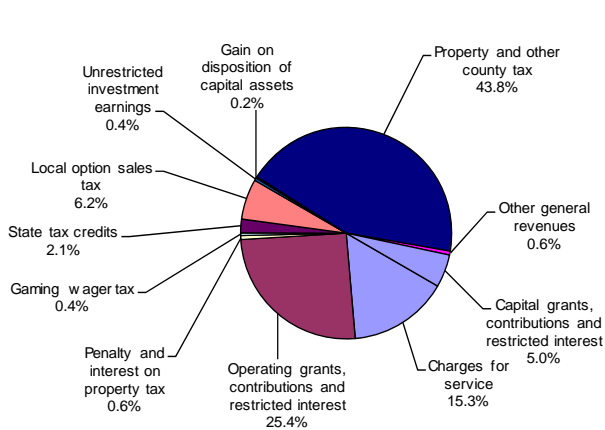
Lee County's total net position increased approximately \$725,000, or 1.8%. The largest portion of the County's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. Debt related to capital assets is liquidated with resources other than capital assets. Comparatively, fiscal year 2012 total net position increased approximately \$632,000, or 1.6%, from fiscal year 2011.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, increased from approximately \$668,000 at June 30, 2012 to approximately \$1,359,000 at the end of this year, an increase of 103%, primarily due to payments on bonds which were not used to purchase assets capitalized by the County.

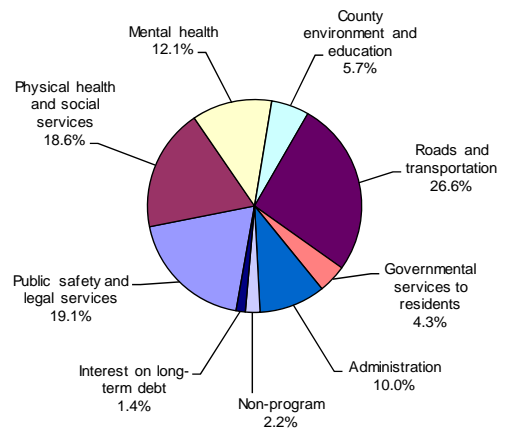
Changes in Net Position of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2013	2012
Revenues:		
Program revenues:		
Charges for service	\$ 3,574	\$ 3,333
Operating grants, contributions and restricted interest	5,949	8,183
Capital grants, contributions and restricted interest	1,168	2,724
General revenues:		
Property and other county tax	10,308	10,145
Penalty and interest on property tax	130	165
Gaming wager tax	84	84
State tax credits	495	426
Local option sales tax	1,442	1,399
Unrestricted investment earnings	104	112
Gain on disposition of capital assets	36	79
Other general revenues	137	234
Total revenues	23,427	26,884
Program expenses:		
Public safety and legal services	4,329	4,370
Physical health and social services	4,223	4,069
Mental health	2,740	6,567
County environment and education	1,296	1,120
Roads and transportation	6,056	6,176
Governmental services to residents	970	967
Administration	2,267	2,218
Non-program	503	430
Interest on long-term debt	318	335
Total expenses	22,702	26,252
Increase in net position	725	632
Net position beginning of year	39,431	38,799
Net position end of year	\$ 40,156	\$ 39,431

Revenue by Source



Expenses by Program



For fiscal year 2013, Lee County's property tax rates decreased to \$8.62044 per \$1,000 of taxable valuation for the countywide levy and increased to \$2.276 per \$1,000 of taxable valuation for the rural levy. The overall tax levy rate decreased \$.13126, from \$11.0277 to \$10.89644, per \$1,000 of taxable valuation. The countywide and the rural services taxable property valuations increased approximately \$61.7 million and \$24.6 million, respectively, from fiscal year 2012 to fiscal year 2013. The net effect of the increases in valuations and the increase in tax rates was a net increase in property and other county tax revenue of approximately \$163,000.

Operating grants, contributions and restricted interest decreased approximately \$2,234,000 from fiscal year 2012. The decrease is due primarily to the County receiving less mental health funding from the State of Iowa due to the change in the method the State uses to pay for Medicaid reimbursed expenses. Capital grants, contributions and restricted interest decreased approximately \$1,556,000 because less infrastructure was contributed by the Iowa Department of Transportation compared to the prior year.

INDIVIDUAL MAJOR FUND ANALYSIS

As Lee County completed the year, its governmental funds reported a combined fund balance of \$9,362,286, which is more than the \$8,639,806 combined fund balance at the end of fiscal year 2012.

The General Fund, the operating fund for Lee County, ended fiscal year 2013 with an ending balance of \$4,906,478 compared to the prior year ending balance of \$4,591,814, an increase of \$314,664. Revenues increased \$567,598, primarily due to an increase in intergovernmental revenue. Expenditures increased \$426,507, or 3.8%, to \$11,775,784 in fiscal year 2013.

The Special Revenue, Mental Health Fund ended fiscal year 2013 with an ending balance of \$734,681 compared to the prior year ending balance of \$386,672, an increase of \$348,009. Revenues decreased \$2,566,020 and expenditures decreased \$3,931,322. The State of Iowa reduced mental health funding and also paid for costs associated with Medicaid patients paid by the County in previous years.

The Special Revenue, Rural Services Fund ended fiscal year 2013 with an ending balance of \$598,772 compared to the prior year ending balance of \$536,134, an increase of \$62,638. Revenues increased \$251,217, due primarily to an increase in property tax and local option sales tax revenue. Expenditures increased \$9,466.

The Special Revenue, Secondary Roads Fund ended fiscal year 2013 with an ending balance of \$1,791,393 compared to the prior year ending balance of \$1,766,150, an increase of \$25,243. Revenues decreased \$547,599, primarily due to a decrease in intergovernmental revenue. Expenditures decreased \$561,637, primarily due to completion of a bridge replacement project and road maintenance in fiscal year 2012.

The Debt Service Fund ended fiscal year 2013 with an ending balance of \$410,810 compared to the prior year ending balance of \$454,190, a decrease of \$43,380. Revenues decreased \$526 while expenditures increased \$2,242.

BUDGETARY HIGHLIGHTS

During the year, Lee County amended its budget one time on May 28, 2013. The amendment was necessary for various grant receipts and disbursements and increased jail operating and capital costs. The amendment increased budgeted disbursements in seven functions by a total of \$545,900.

The County's receipts were \$2,644,799 less than budgeted, a variance of 10.9%. Intergovernmental receipts were \$2,180,291 less than budgeted, due primarily to the reduction of property tax relief for mental health services.

Total disbursements were \$2,776,811 less than the amended budget, a variance of 11%. Actual disbursements for the mental health and capital projects functions were \$1,361,986 and \$663,689, respectively, less than budgeted. Mental health function disbursements were less than budgeted primarily due to the State of Iowa being responsible to pay certain costs previously paid by the County. Capital projects function disbursements were less than budgeted primarily due to the deferment of capital projects for secondary roads.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the County had invested approximately \$37.3 million, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment, transportation equipment and administrative offices. This amount is a net decrease of approximately \$500,000 from June 30, 2012.

Lee County had depreciation/amortization expense of approximately \$2.4 million in fiscal year 2013 and total accumulated depreciation/amortization of approximately \$32.3 million at June 30, 2013. Additional information about the County's capital assets is included in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2013, the County had approximately \$7,760,000 of long-term debt outstanding. This represents a decrease of approximately \$539,000 from June 30, 2012.

Outstanding debt decreased primarily due to scheduled payments of \$495,000 made on general obligation bonds. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Lee County's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$96 million. Additional information about the County's long-term debt is included in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

From fiscal year 2012 to fiscal year 2013, the countywide and the rural taxable property valuations increased approximately \$61.7 million and \$24.6 million, respectively. In fiscal year 2014, the countywide and the rural taxable property valuations increased approximately \$41.2 million and \$23.8 million, respectively.

Amounts budgeted for disbursements in the fiscal year 2014 operating budget are approximately \$32.3 million, an increase of 43% over the fiscal year 2013 actual disbursements of approximately \$22.6 million. The significant projected increase in disbursements is primarily due to the pass-through receipts and disbursements for the Iowa Fertilizer Plant Project. The County is expected to end fiscal year 2014 with a budgeted ending cash balance of approximately \$6.1 million compared to the June 30, 2013 actual cash balance of approximately \$7.5 million.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Exhibit A

Lee County
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
Assets	
Cash, cash equivalents and pooled investments	\$ 9,789,709
Receivables:	
Property tax:	
Delinquent	47,947
Succeeding year	10,308,000
Interest and penalty on property tax	48,122
Accounts	486,778
Accrued interest	7,129
E911 loan	365,000
Due from other governments	1,211,680
Inventories	935,630
Capital assets, net of accumulated depreciation/amortization	37,307,023
Total assets	<u>60,507,018</u>
Liabilities	
Accounts payable	998,776
Accrued interest payable	24,125
Salaries and benefits payable	300,499
Due to other governments	178,031
Deferred revenue:	
Succeeding year property tax	10,308,000
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	525,000
Bank loans	31,163
Compensated absences	335,607
Portion due or payable after one year:	
General obligation bonds	7,080,000
Bank loans	123,373
Compensated absences	112,120
Net OPEB liability	334,600
Total liabilities	<u>20,351,294</u>

Lee County
Statement of Net Position
June 30, 2013

	Governmental Activities
Net Position	
Net investment in capital assets	32,692,487
Restricted for:	
Nonexpendable:	
Permanent Fund - hospice care	82,500
Expendable:	
Supplemental levy purposes	1,128,177
Mental health purposes	758,222
Rural services purposes	577,317
Secondary roads purpose	1,754,882
Conservation land acquisition	59,531
Debt service	403,902
Building repair and maintenance	424,718
Hospice purposes	265,126
Other purposes	649,726
Unrestricted	1,359,136
Total net position	\$ 40,155,724

See notes to financial statements.

Lee County

Lee County

Statement of Activities

Year ended June 30, 2013

	Expenses	Program Revenues			Net
		Charges for Service	Contributions and Restricted Interest	Contributions and Restricted Interest	(Expense) Revenue and Changes in Net Position
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 4,329,380	311,188	126,871	-	(3,891,321)
Physical health and social services	4,223,615	2,016,781	1,419,940	-	(786,894)
Mental health	2,739,756	121,935	777,328	-	(1,840,493)
County environment and education	1,295,871	27,314	425,233	-	(843,324)
Roads and transportation	6,055,702	48,541	3,157,316	1,168,370	(1,681,475)
Governmental services to residents	970,230	542,846	162	-	(427,222)
Administration	2,266,774	56,682	3,043	-	(2,207,049)
Non-program	503,374	449,123	21,671	-	(32,580)
Interest on long-term debt	317,749	-	17,519	-	(300,230)
	<u>\$ 22,702,451</u>	<u>3,574,410</u>	<u>5,949,083</u>	<u>1,168,370</u>	<u>(12,010,588)</u>
General Revenues:					
Property and other county tax levied for:					
General purposes					9,585,789
Debt services					721,940
Penalty and interest on property tax					129,754
Gaming wager tax					84,374
State tax credits					495,473
Local option sales tax					1,441,709
Unrestricted investment earnings					103,448
Gain on disposition of capital assets					36,193
Miscellaneous					136,353
Total general revenues					<u>12,735,033</u>
Change in net position					724,445
Net position beginning of year					<u>39,431,279</u>
Net position end of year					<u>\$ 40,155,724</u>

See notes to financial statements.

Lee County
Balance Sheet
Governmental Funds

June 30, 2013

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Assets				
Cash, cash equivalents and pooled investments:				
County Treasurer	\$ 4,735,052	1,020,071	434,860	778,614
Component units	-	-	-	-
Receivables:				
Property tax:				
Delinquent	32,723	7,849	3,688	-
Succeeding year	6,722,000	1,613,000	1,174,000	-
Interest and penalty on property tax	48,122	-	-	-
Accounts	51,687	1,186	-	72,181
Accrued interest	6,650	-	-	-
E911 loan	-	-	-	-
Due from other governments	685,887	26,120	186,000	295,213
Due from other funds	39,525	-	-	-
Inventories	-	-	-	934,903
Total assets	\$ 12,321,646	2,668,226	1,798,548	2,080,911
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 218,808	192,015	5,869	120,423
Salaries and benefits payable	211,446	4,899	16,578	60,608
Due to other funds	4,784	231	-	126
Due to other governments	78,478	95,400	-	89
Deferred revenue:				
Succeeding year property tax	6,722,000	1,613,000	1,174,000	-
Other	179,652	28,000	3,329	108,272
Total liabilities	7,415,168	1,933,545	1,199,776	289,518
Fund balances:				
Nonspendable:				
Inventories	-	-	-	934,903
Hospice care	-	-	-	-
Restricted for:				
Supplemental levy purposes	1,172,816	-	-	-
Mental health purposes	-	734,681	-	-
Rural services purposes	-	-	598,772	-
Secondary roads purposes	-	-	-	856,490
Conservation land acquisition	59,531	-	-	-
Debt service	-	-	-	-
Hospice care	-	-	-	-
Building repair and maintenance (local option sales tax)	424,718	-	-	-
Other purposes	112	-	-	-
Assigned for Sheriff's commissary	55,092	-	-	-
Unassigned	3,194,209	-	-	-
Total fund balances	4,906,478	734,681	598,772	1,791,393
Total liabilities and fund balances	\$ 12,321,646	2,668,226	1,798,548	2,080,911

See notes to financial statements.

Debt Service	Nonmajor	Total
44,905	453,481	7,466,983
-	593,416	593,416
3,687	-	47,947
799,000	-	10,308,000
-	-	48,122
-	361,237	486,291
10	95	6,755
365,000	-	365,000
-	-	1,193,220
-	-	39,525
-	-	934,903
<u>1,212,602</u>	<u>1,408,229</u>	<u>21,490,162</u>
-	440,679	977,794
-	4,314	297,845
-	39,525	44,666
-	3,559	177,526
799,000	-	10,308,000
2,792	-	322,045
<u>801,792</u>	<u>488,077</u>	<u>12,127,876</u>
-	-	934,903
-	82,500	82,500
-	-	1,172,816
-	-	734,681
-	-	598,772
-	-	856,490
-	-	59,531
410,810	-	410,810
-	265,126	265,126
-	-	424,718
-	649,614	649,726
-	-	55,092
-	(77,088)	3,117,121
<u>410,810</u>	<u>920,152</u>	<u>9,362,286</u>
<u>1,212,602</u>	<u>1,408,229</u>	<u>21,490,162</u>

Lee County

Lee County

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

June 30, 2013

Total governmental fund balances (page 21) \$ 9,362,286

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$69,401,245 and the accumulated depreciation/amortization is \$32,122,628. 37,278,617

Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the governmental funds. 322,045

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 Position, as follows:

Capital assets of \$233,492, net of accumulated depreciation/amortization of \$205,086	\$ 28,406	
Compensated absences	(2,864)	
Net OPEB liability	(1,974)	
Other net position	<u>1,730,358</u>	1,753,926

Long-term liabilities, including general obligation bonds payable, bank loans payable, other postemployment benefits payable, accrued interest payable and compensated absences payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds. (8,561,150)

Net position of governmental activities (page 17) \$ 40,155,724

See notes to financial statements.

Lee County

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

Year ended June 30, 2013

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 6,527,686	2,069,000	1,079,596	-
Local option sales tax	377,914	-	1,133,743	-
Interest and penalty on property tax	148,139	-	-	-
Intergovernmental	3,577,817	832,046	57,807	3,163,044
Licenses and permits	74,215	-	-	19,420
Charges for service	1,022,190	-	-	98
Use of money and property	157,753	72,948	-	-
Miscellaneous	165,209	18,646	19	60,153
Total revenues	12,050,923	2,992,640	2,271,165	3,242,715
Expenditures:				
Operating:				
Public safety and legal services	3,571,109	-	673,534	-
Physical health and social services	4,107,009	-	-	-
Mental health	-	2,644,631	-	-
County environment and education	1,062,970	-	-	-
Roads and transportation	-	-	122,951	4,580,719
Governmental services to residents	951,912	-	2,042	-
Administration	2,026,221	-	-	-
Non-program	17,038	-	-	-
Debt service	-	-	-	-
Capital projects	39,525	-	-	46,753
Total expenditures	11,775,784	2,644,631	798,527	4,627,472
Excess (deficiency) of revenues over (under) expenditures	275,139	348,009	1,472,638	(1,384,757)
Other financing sources (uses):				
Operating transfers in	39,525	-	-	1,410,000
Operating transfers out	-	-	(1,410,000)	-
Total other financing sources (uses)	39,525	-	(1,410,000)	1,410,000
Change in fund balances	314,664	348,009	62,638	25,243
Fund balances beginning of year	4,591,814	386,672	536,134	1,766,150
Fund balances end of year	\$ 4,906,478	734,681	598,772	1,791,393

See notes to financial statements.

Debt Service	Nonmajor	Total
722,145	-	10,398,427
-	-	1,511,657
-	-	148,139
48,682	265,054	7,944,450
-	-	93,635
-	5,899	1,028,187
1,369	79,612	311,682
-	130,116	374,143
<u>772,196</u>	<u>480,681</u>	<u>21,810,320</u>
-	10,814	4,255,457
-	127,130	4,234,139
-	39,157	2,683,788
-	229,992	1,292,962
-	-	4,703,670
-	4,619	958,573
-	-	2,026,221
-	-	17,038
815,576	-	815,576
-	14,138	100,416
<u>815,576</u>	<u>425,850</u>	<u>21,087,840</u>
<u>(43,380)</u>	<u>54,831</u>	<u>722,480</u>
-	-	1,449,525
-	(39,525)	(1,449,525)
-	(39,525)	-
<u>(43,380)</u>	<u>15,306</u>	<u>722,480</u>
<u>454,190</u>	<u>904,846</u>	<u>8,639,806</u>
<u>410,810</u>	<u>920,152</u>	<u>9,362,286</u>

Lee County

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

Year ended June 30, 2013

Change in fund balances - Total governmental funds (page 25)		\$ 722,480
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. Depreciation/amortization expense exceeded capital outlay expenditures and contributed capital assets in the current year, as		
Expenditures for capital assets	\$ 825,150	
Capital assets contributed by the Iowa Department of	1,060,098	
Depreciation/amortization expense	<u>(2,407,404)</u>	(522,156)
In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase financial resources.		36,193
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	(6,324)	
Other	<u>70,623</u>	64,299
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		539,196
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Compensated absences	(13,947)	
Other postemployment benefits	(67,679)	
Interest on long-term debt	<u>2,827</u>	(78,799)
The Internal Service Funds are used by management to charge the costs of various services to individual departments and funds. The change in net position of the Internal Service Funds is reported with governmental activities.		
Change in net position of governmental activities (page 19)		<u>\$ 724,445</u>
See notes to financial statements.		

Lee County
Statement of Net Position
Proprietary Funds

June 30, 2013

	<u>Internal Service</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,729,310
Receivables:	
Accounts	487
Accrued interest	374
Due from other funds	5,386
Due to other governments	18,460
Inventories	727
Noncurrent assets:	
Capital assets, net of accumulated depreciation/amortization	28,406
Total assets	<u>1,783,150</u>
Liabilities	
Current liabilities:	
Accounts payable	20,982
Salaries and benefits payable	2,654
Due to other funds	245
Due to other governments	505
Compensated absences	2,864
Non-current liabilities:	
Net OPEB liability	1,974
Total liabilities	<u>29,224</u>
Net Position	
Net investment in capital assets	28,406
Unrestricted	1,725,520
Total net position	<u>\$ 1,753,926</u>

See notes to financial statements.

Lee County

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

Year ended June 30, 2013

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds and other governmental units		\$ 2,274,159
Reimbursements from employees and others		164,047
Miscellaneous reimbursements		10,289
Total operating revenues		<u>2,448,495</u>
Operating expenses:		
Medical and health services	\$ 2,158,244	
Salaries and benefits	81,933	
Administrative fees, network access fees and stop-loss premium	48,973	
Supplies, utilities and data processing	162,853	
Maintenance agreements	12,647	
Non-capitalized equipment	3,326	
Depreciation/amortization	24,140	2,492,116
Operating loss		<u>(43,621)</u>
Non-operating revenues:		
Interest income		6,853
Net loss		<u>(36,768)</u>
Net position beginning of year		1,790,694
Net position end of year		<u>\$ 1,753,926</u>
See notes to financial statements.		

Lee County
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2013

	Internal Service
Cash flows from operating activities:	
Cash received from operating funds and other governmental units	\$ 2,256,837
Cash received from employees and others	174,609
Cash paid to suppliers for services	(2,468,340)
Net cash used by operating activities	(36,894)
Cash flows from investing activities:	
Interest on investments	7,264
Decrease in cash and cash equivalents	(29,630)
Cash and cash equivalents beginning of year	1,758,940
Cash and cash equivalents end of year	\$ 1,729,310
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (43,621)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation/amortization expense	24,140
Changes in assets and liabilities:	
Increase in accounts receivable	(28)
Increase in due from other governments	(18,460)
Decrease in due from other funds	1,437
Decrease in inventories	4,638
Decrease in accounts payable	(3,508)
Decrease in salaries and benefits payable	(151)
Increase in due to other funds	17
Increase in due to other governments	505
Decrease in compensated absences	(1,768)
Decrease in net OPEB liability	(95)
Net cash used by operating activities	\$ (36,894)

See notes to financial statements.

Lee County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2013

Assets

Cash, cash equivalents and pooled investments:

County Treasurer	\$ 2,224,373
Other County officials	264,998

Receivables:

Property tax:

Delinquent	157,135
Succeeding year	28,853,000

Accounts	16,633
----------	--------

Accrued interest	115
------------------	-----

Special assessments	167,879
---------------------	---------

Drainage assessments:

Current	188,772
---------	---------

Future	989,137
--------	---------

Due from other governments	888,466
----------------------------	---------

Total assets	<u>33,750,508</u>
---------------------	-------------------

Liabilities

Accounts payable	97,334
------------------	--------

Salaries and benefits payable	35,724
-------------------------------	--------

Due to other governments	31,348,732
--------------------------	------------

Trusts payable	244,450
----------------	---------

Compensated absences	29,231
----------------------	--------

Bank loan	1,995,037
-----------	-----------

Total liabilities	<u>33,750,508</u>
--------------------------	-------------------

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

See notes to financial statements.

Lee County

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

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

leasing and disposing of a residential multi-dwelling housing project of up to 16 units for hard to house persons of low income. In accordance with criteria set forth by the Governmental Accounting Standards Board, Lincoln Ridge Limited Partnership meets the definition of a component unit which should be blended. The partnership's financial activity included in this report is from the partnership's financial report for the year ended December 31, 2012. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

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

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

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

Discretely Presented Component Unit

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

In accordance with criteria set forth by the Governmental Accounting Standards Board, EMS meets the definition of a component unit which should be discretely presented. Condensed financial statements for the year ended December 31, 2012 presented in Note 14 were prepared on the accrual basis of accounting. Unaudited financial statements may be obtained from Lee County EMS Ambulance, Inc., 314 South Main Street, Donnellson, IA 50265.

Jointly Governed Organizations

The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Lee County

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

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

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position (previously referred to as 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 Position presents the County's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories.

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

Restricted net position results when constraints placed on the use of net position are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2012.

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

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

Drainage Assessments Receivable – Drainage assessments receivable represent amounts assessed to individuals for work done on drainage districts which benefit 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. Delinquent drainage assessments receivable represent assessments which are due and payable but have not been collected. Succeeding year drainage assessments receivable represents remaining assessments which are payable but not yet due.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2013, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

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

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

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

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

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

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

Deferred revenue in the Statement of Net Position 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, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

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

Unassigned – All amounts not included in the preceding classifications.

Net Position – The net position 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, 2013, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash, Cash Equivalents and Pooled Investments

The County's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Three Rivers Conservation Foundation's investments at June 30, 2013 consist of stocks and stock mutual funds with a fair value of \$153,428. Disclosure of concentration of credit risk and interest rate risk do not apply to these investments.

Friends of Public Health's investments at June 30, 2013 consist of Series A preferred interest in IO-MEGA, LLC, with a cost of \$75,000. Fair value is not determinable for this investment. Disclosures of concentration of credit risk and interest rate do not apply to this investment.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	\$ 39,525
Internal Service:		
Supplies	General	4,784
	Special Revenue:	
	Mental Health	231
	Secondary Roads	126
	Internal Service:	
	Employee Health Plan Trust	90
	Information Technology	155
Total		<u>\$ 44,911</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, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Capital Projects	\$ 39,525
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	1,410,000
Total		<u>\$ 1,449,525</u>

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

(5) **Capital Assets**

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 993,136	-	-	993,136
Land, road network	976,085	-	-	976,085
Construction in progress	45,075	1,230,461	(1,149,622)	125,914
Total capital assets not being depreciated/amortized	2,014,296	1,230,461	(1,149,622)	2,095,135
Capital assets being depreciated/amortized:				
Buildings	14,453,195	33,880	-	14,487,075
Improvements other than buildings	851,055	26,590	-	877,645
Equipment and vehicles	6,647,131	639,017	(285,705)	7,000,443
Equipment - internal service	160,338	-	-	160,338
Intangibles	125,420	-	-	125,420
Intangibles - internal service	73,154	-	-	73,154
Infrastructure, road network	43,665,905	1,149,622	-	44,815,527
Total capital assets being depreciated/amortized	65,976,198	1,849,109	(285,705)	67,539,602
Less accumulated depreciation/amortization for:				
Buildings	4,837,845	345,558	-	5,183,403
Improvements other than buildings	572,292	21,755	-	594,047
Equipment and vehicles	5,065,398	468,371	(277,198)	5,256,571
Equipment, internal service	137,053	9,509	-	146,562
Intangibles	125,420	-	-	125,420
Intangibles - internal service	43,893	14,631	-	58,524
Infrastructure, road network	19,391,467	1,571,720	-	20,963,187
Total accumulated depreciation/amortization	30,173,368	2,431,544	(277,198)	32,327,714
Total capital assets being depreciated/amortized, net	35,802,830	(582,435)	(8,507)	35,211,888
Governmental activities capital assets, net	\$37,817,126	648,026	(1,158,129)	37,307,023

Depreciation/amortization expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 66,087
Physical health and social services	31,968
Mental health	84,461
County environment and education	43,119
Roads and transportation	1,905,283
Administration	300,626
Total depreciation/amortization expense - governmental activities	<u>\$2,431,544</u>

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments at June 30, 2013 is as follows:

Fund	Description	Amount
General	Services	\$ 78,478
Special Revenue:		
Mental Health	Services	95,400
Secondary Roads	Services	89
Memorial Trust	Services	3,559
		<u>99,048</u>
Total for governmental funds		<u>\$ 177,526</u>
Agency:		
County Assessor	Collections	\$ 789,354
Schools		16,040,773
Community Colleges		1,159,284
Corporations		11,212,060
Auto License and Use Tax		640,119
All other		1,507,142
Total for agency funds		<u>\$ 31,348,732</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	General Obligation Jail Bonds	General Solid Waste Disposal Bonds	General Emergency Services Bonds	Great River Progressive Housing Corporation Bank Loan	Capital Lease Purchase Agreements	Compen- sated Absences	Net OPEB Liability	Total
Balance beginning of year	\$4,665,000	3,025,000	410,000	184,079	14,653	435,548	267,016	9,001,296
Increases	-	-	-	-	-	530,766	101,784	632,550
Decreases	205,000	245,000	45,000	29,543	14,653	518,587	34,200	1,091,983
Balance end of year	<u>\$4,460,000</u>	<u>2,780,000</u>	<u>365,000</u>	<u>154,536</u>	<u>-</u>	<u>447,727</u>	<u>334,600</u>	<u>8,541,863</u>
Due within one year	\$ 215,000	260,000	50,000	31,163	-	335,607	-	891,770

General Obligation Jail Bonds

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

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2014	3.50%	\$ 215,000	177,720	392,720
2015	3.50	225,000	170,195	395,195
2016	4.00	235,000	162,320	397,320
2017	5.00	245,000	152,920	397,920
2018	5.00	255,000	140,570	395,570
2019-2023	3.70-3.80	1,140,000	450,525	1,590,525
2024-2028	3.90-4.00	2,145,000	309,810	2,454,810
Total		\$ 4,460,000	1,564,060	6,024,060

General Obligation Solid Waste Disposal Bonds

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

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2014	4.20%	\$ 260,000	107,442	367,442
2015	4.00	270,000	97,042	367,042
2016	4.00	280,000	86,242	366,242
2017	3.73	295,000	75,042	370,042
2018	3.75	305,000	64,038	369,038
2019-2022	3.80-3.90	1,370,000	134,986	1,504,986
Total		\$ 2,780,000	564,792	3,344,792

General Obligation Emergency Services Bonds

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

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2014	3.10 %	\$ 50,000	14,980	64,980
2015	3.45	50,000	13,430	63,430
2016	3.80	50,000	11,705	61,705
2017	4.10	50,000	9,805	59,805
2018	4.40	55,000	7,755	62,755
2019-2020	4.70-5.00	110,000	8,085	118,085
Total		\$ 365,000	65,760	430,760

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

Great River Progressive Housing Corporation Bank Loan

On January 13, 2003, Great River Progressive Housing Corporation (GRPHC), general partner of the Lincoln Ridge Limited Partnership (LRLP), entered into a loan agreement with a bank to borrow \$400,000 for the construction of a low-income housing project for persons with mental disabilities. The loan bears interest at 5.41% per annum and requires semi-annual payments of \$19,555, including interest, on December 15 and June 15, with the final payment due on December 15, 2017. The amount of each principal and interest payment is equivalent to the County's payment to GRPHC pursuant to a service agreement. During the year ended June 30, 2013, GRPHC made payments on the loan, consisting of principal of \$29,543 and interest of \$9,566. The principal balance owed on the loan at June 30, 2013 was \$154,536.

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2014	5.41%	\$ 31,163	7,946	39,109
2015	5.41	32,872	6,237	39,109
2016	5.41	34,664	4,446	39,110
2017	5.41	36,575	2,534	39,109
2018	5.41	19,262	523	19,785
Total		\$ 154,536	21,686	176,222

(8) E911 Loan Receivable

On April 1, 2010, the County entered into a \$500,000 loan agreement with the E911 Service Board. The E911 Service Board agreed to pay all amounts due by the County under the general obligation emergency services bonds issued on April 6, 2010. Note 7 to the financial statements displays the summary of the annual bond principal and interest requirements to maturity. The balance of the loan receivable, \$365,000 at June 30, 2013, is reported in the Debt Service fund.

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

(9) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.78% of their annual covered salary and the County is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$633,841, \$570,676 and \$496,798, respectively, equal to the required contributions for each year.

(10) Endowment

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

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

(11) Other Postemployment Benefits (OPEB)

Plan Description – The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 165 active and 5 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the County’s annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the County’s net OPEB obligation:

Annual required contribution	\$ 101,700
Interest on net OPEB obligation	10,700
Adjustment to annual required contribution	<u>(10,616)</u>
Annual OPEB cost	101,784
Contributions made	<u>(34,200)</u>
Increase in net OPEB obligation	67,584
Net OPEB obligation beginning of year	<u>267,016</u>
Net OPEB obligation end of year	<u>\$ 334,600</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the County contributed \$34,200 to the medical plan. Plan members eligible for benefits contributed \$37,700, or 52.4% of the premium costs.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 84,952	35.2%	\$ 188,000
2012	101,734	22.3	267,016
2013	101,784	33.6	334,600

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$889,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$889,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$6,468,000 and the ratio of the UAAL to covered payroll was 13.7%. As of June 30, 2013, there were no trust fund assets.

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

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

As of the July 1, 2011 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the County's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

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

(12) Risk Management

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

(13) Employee Health Insurance Plan

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

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

Monthly payments of service fees and plan contributions to the Employee Health Plan Trust Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Advantage Administrators and health insurance premiums are paid to Wellmark from the Employee Health Plan Trust Fund. The County's contribution for the year ended June 30, 2013 was \$2,005,469.

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

(14) Lee County EMS Ambulance, Inc.

Lee County EMS Ambulance, Inc. (EMS) provides ambulance service for Lee County. EMS reports its financial activity using a calendar year end and the income tax basis of accounting. As permitted by GASB Statement No. 34, the County has opted to present condensed financial information for its discretely presented component unit. Following is the unaudited condensed financial information for EMS for the year ended December 31, 2012.

Condensed Statement of Net Position	
December 31, 2012	
(Unaudited)	
Assets	
Capital assets, net of accumulated depreciation	\$ 225,289
Other	21,684
Total assets	246,973
Liabilities	
Line of credit	45,000
Other	18,494
Total liabilities	63,494
Net position	
Net investment in capital assets	225,289
Unrestricted	(41,810)
Total net position	\$ 183,479

Condensed Statement of Revenues, Expenses and Changes in Fund Net Position	
Year ended December 31, 2012	
(Unaudited)	
Operating revenues:	
Patient income	\$ 1,301,869
County subsidy	390,000
Other	4,640
Total operating revenues	1,696,509
Operating expenses:	
Salaries and benefits	\$ 1,166,240
Insurance	263,402
Other	275,514
Operating loss	(8,647)
Non-operating revenues:	
Interest income	4
Interest expense	(1,107)
Gain on sale of asset	500
Net non-operating revenues	(603)
Net loss	(9,250)
Net position beginning of year	192,729
Net position end of year	\$ 183,479

(15) Jointly Governed Organization

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

Additions:

Contributions from governmental units:

Member contributions		\$ 753,053
Interest on investments		296
Miscellaneous		30
Total additions		<u>753,379</u>

Deductions:

Salaries	\$ 473,261	
Benefits	229,818	
Office supplies	3,005	
Legal representation and publications	278	
Telephone	3,714	
Equipment	15,600	
Labor relation services	4,583	
Equipment rental	2,586	
Maintenance and improvements	1,168	
Data processing services	15,488	749,501
Net		<u>3,878</u>
Balance beginning of year		<u>71,013</u>
Balance end of year		<u><u>\$ 74,891</u></u>

(16) Ambulance Subsidy Agreement

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

(17) Early Childhood Iowa Area Board

The County is the fiscal agent for Children First, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. The Area Board receives state grants to administer early childhood and school ready programs. Financial transactions of the Area Board are included in the County's financial statements as part of Other Agency Funds because of the County's fiduciary relationship with the Area Board. The Area Board's financial data for the year ended June 30, 2013 is as follows:

	Early Childhood	School Ready	Total
Revenues:			
State grants:			
Early childhood	\$ 116,820	-	116,820
Family support and parent education	-	208,232	208,232
Preschool support for low-income families	-	91,429	91,429
Quality improvement	-	44,810	44,810
Allocation for administration	6,148	11,333	17,481
Other grant programs	425	22,212	22,637
Total state grants	123,393	378,016	501,409
Interest on investments	156	461	617
Total revenues	123,549	378,477	502,026
Expenditures:			
Program services:			
Early childhood	121,452	-	121,452
Family support and parent education	-	208,232	208,232
Preschool support for low income families	-	92,866	92,866
Quality improvement	-	44,155	44,155
Other program services	-	22,630	22,630
Total program services	121,452	367,883	489,335
Administration	6,006	12,834	18,840
Total expenditures	127,458	380,717	508,175
Change in fund balance	(3,909)	(2,240)	(6,149)
Fund balance beginning of year	4,772	43,172	47,944
Fund balance end of year	\$ 863	40,932	41,795

(18) Pending Litigation and Contingent Liability

The County was the defendant in a civil case and the jury reached a verdict in February 2013 awarding the plaintiff \$186,000 in back pay and fringe benefits. The case was later dismissed on a motion notwithstanding the verdict. The plaintiff has appealed.

(19) Deficit Fund Balances

The Special Revenue, Lincoln Ridge Limited Partnership Fund had a deficit balance of \$20,512 at June 30, 2013. The deficit balance was the result of a lower occupancy rate at the apartment building. The deficit will be eliminated through efforts to increase the occupancy rate.

The Capital Projects Fund had a deficit balance of \$14,263 at June 30, 2013. The deficit will be eliminated through the issuance of debt.

(20) Subsequent Event

In July 2013, the County approved issuance of \$650,000 of general obligation bonds to fund the construction of a female general population expansion and a male medium security expansion.

Lee County

Required Supplementary Information

Lee County

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

Required Supplementary Information

Year ended June 30, 2013

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 11,704,480	-	11,704,480
Interest and penalty on property tax	142,763	-	142,763
Intergovernmental	8,289,801	249,143	8,040,658
Licenses and permits	95,301	-	95,301
Charges for service	1,020,227	-	1,020,227
Use of money and property	315,044	77,895	237,149
Miscellaneous	375,746	82,721	293,025
Total receipts	<u>21,943,362</u>	<u>409,759</u>	<u>21,533,603</u>
Disbursements:			
Public safety and legal services	4,345,165	-	4,345,165
Physical health and social services	4,190,850	748	4,190,102
Mental health	4,129,200	81,064	4,048,136
County environment and education	1,459,394	247,706	1,211,688
Roads and transportation	4,817,455	-	4,817,455
Governmental services to residents	970,424	-	970,424
Administration	2,046,628	-	2,046,628
Non-program	14,108	-	14,108
Debt service	815,576	-	815,576
Capital projects	116,441	-	116,441
Total disbursements	<u>22,905,241</u>	<u>329,518</u>	<u>22,575,723</u>
Excess (deficiency) of receipts over (under) disbursements	(961,879)	80,241	(1,042,120)
Balance beginning of year	9,022,278	513,175	8,509,103
Balance end of year	<u>\$ 8,060,399</u>	<u>593,416</u>	<u>7,466,983</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
12,076,712	12,076,712	(372,232)
111,606	111,606	31,157
9,954,299	10,220,949	(2,180,291)
120,250	120,250	(24,949)
1,005,795	1,005,795	14,432
265,370	265,370	(28,221)
370,720	377,720	(84,695)
23,904,752	24,178,402	(2,644,799)
4,397,227	4,523,227	178,062
4,087,812	4,313,212	123,110
5,410,122	5,410,122	1,361,986
1,325,290	1,336,790	125,102
4,823,765	4,823,765	6,310
983,968	1,056,968	86,544
2,202,794	2,237,794	191,166
20,000	55,000	40,892
815,526	815,526	(50)
740,130	780,130	663,689
24,806,634	25,352,534	2,776,811
(901,882)	(1,174,132)	132,012
7,877,854	7,877,854	631,249
6,975,972	6,703,722	763,261

Lee County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2013

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 21,943,362	(133,042)	21,810,320
Expenditures	22,905,241	(1,817,401)	21,087,840
Net	(961,879)	1,684,359	722,480
Beginning fund balances	9,022,278	(382,472)	8,639,806
Ending fund balances	\$ 8,060,399	1,301,887	9,362,286

See accompanying independent auditor's report.

Lee County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2013

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

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

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Permanent Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, a budget amendment increased budgeted disbursements by \$545,900. 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, 2013, disbursements exceeded the amount budgeted in the debt service function.

Lee County

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

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	Jul 1, 2008		\$ 781	781	0.0%	\$ 5,879	13.3%
2010	Jul 1, 2008		781	781	0.0	5,879	13.3
2011	Jul 1, 2008	-	781	781	0.0	5,879	13.3
2012	Jul 1, 2011	-	889	889	0.0	6,468	13.7
2013	Jul 1, 2011	-	889	889	0.0	6,468	13.7

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

See accompanying independent auditor's report.

Supplementary Information

Lee County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2013

	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff Reserves	Great River Progressive Housing Corporation	Special Lincoln Ridge Limited Partnership
Assets					
Cash, cash equivalents and pooled investments:					
County Treasurer	\$ 5,127	40,646	7,893	-	-
Component units	-	-	-	12	42,953
Receivables:					
Accounts	-	-	-	-	11,237
Accrued interest	1	9	-	-	-
Total assets	\$ 5,128	40,655	7,893	12	54,190
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	-	-	-	74,702
Salaries and benefits payable	1,677	-	-	-	-
Due to other governments	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total liabilities	1,677	-	-	-	74,702
Fund balances:					
Nonspendable:					
Hospice care	-	-	-	-	-
Restricted for:					
Hospice care	-	-	-	-	-
Other purposes	3,451	40,655	7,893	12	42,313
Unassigned	-	-	-	-	(62,825)
Total fund balances	3,451	40,655	7,893	12	(20,512)
Total liabilities and fund balances	\$ 5,128	40,655	7,893	12	54,190

See accompanying independent auditor's report.

Revenue									
Lee County		Friends						Permanent	
Economic	Three Rivers	of	Sheriff's	Memorial	Neff	Capital		Neff	Total
Development	Conservation	Public	Forfeiture	Trust	Memorial	Projects		Memorial	
Group	Foundation	Health							
-	-	-	7,476	246,966	24,775	38,098		82,500	453,481
210,964	165,275	174,212	-	-	-	-		-	593,416
350,000	-	-	-	-	-	-		-	361,237
-	-	-	-	57	19	9		-	95
560,964	165,275	174,212	7,476	247,023	24,794	38,107		82,500	1,408,229
350,000	-	-	-	3,132	-	12,845		-	440,679
2,637	-	-	-	-	-	-		-	4,314
-	-	-	-	3,559	-	-		-	3,559
-	-	-	-	-	-	39,525		-	39,525
352,637	-	-	-	6,691	-	52,370		-	488,077
-	-	-	-	-	-	-		82,500	82,500
-	-	-	-	240,332	24,794	-		-	265,126
208,327	165,275	174,212	7,476	-	-	-		-	649,614
-	-	-	-	-	-	(14,263)		-	(77,088)
208,327	165,275	174,212	7,476	240,332	24,794	(14,263)		82,500	920,152
560,964	165,275	174,212	7,476	247,023	24,794	38,107		82,500	1,408,229

Lee County

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

Year ended June 30, 2013

	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff Reserves	Great River Progressive Housing Corporation	Special Lincoln Ridge Limited Partnership
Revenues:					
Intergovernmental	\$ 15,911	-	-	39,143	-
Charges for service	-	5,899	-	-	-
Use of money and property	39	162	-	-	55,805
Miscellaneous	-	-	6,733	-	4,031
Total revenues	15,950	6,061	6,733	39,143	59,836
Expenditures:					
Operating:					
Public safety and legal services	-	-	10,814	-	-
Physical health and social services	-	-	-	-	76,667
Mental health	-	-	-	39,157	-
County environment and education	21,433	-	-	-	-
Governmental services to residents	-	4,619	-	-	-
Capital projects	-	-	-	-	-
Total expenditures	21,433	4,619	10,814	39,157	76,667
Excess (deficiency) of revenues over (under) expenditures	(5,483)	1,442	(4,081)	(14)	(16,831)
Other financing uses:					
Operating transfers out	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(5,483)	1,442	(4,081)	(14)	(16,831)
Fund balances beginning of year	8,934	39,213	11,974	26	(3,681)
Fund balances end of year	\$ 3,451	40,655	7,893	12	(20,512)

See accompanying independent auditor's report.

Revenue								
Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Sheriff's Forfeiture	Memorial Trust	Neff Memorial	Capital Projects	Permanent Neff Memorial	Total
210,000	-	-	-	-	-	-	-	265,054
-	-	-	-	-	-	-	-	5,899
-	21,892	198	-	1,028	333	155	-	79,612
34,521	31,933	12,158	-	40,740	-	-	-	130,116
244,521	53,825	12,356	-	41,768	333	155	-	480,681
-	-	-	-	-	-	-	-	10,814
-	-	748	-	49,715	-	-	-	127,130
-	-	-	-	-	-	-	-	39,157
145,706	62,853	-	-	-	-	-	-	229,992
-	-	-	-	-	-	-	-	4,619
-	-	-	-	-	-	14,138	-	14,138
145,706	62,853	748	-	49,715	-	14,138	-	425,850
98,815	(9,028)	11,608	-	(7,947)	333	(13,983)	-	54,831
-	-	-	-	-	-	(39,525)	-	(39,525)
98,815	(9,028)	11,608	-	(7,947)	333	(53,508)	-	15,306
109,512	174,303	162,604	7,476	248,279	24,461	39,245	82,500	904,846
208,327	165,275	174,212	7,476	240,332	24,794	(14,263)	82,500	920,152

Lee County
Combining Schedule of Fund Net Position
Internal Service Funds

June 30, 2013

	Employee			Total
	Supplies	Health Plan Trust	Information Technology	
Assets				
Current assets:				
Cash and cash equivalents	\$ 28,657	1,623,886	76,767	1,729,310
Receivables:				
Accounts	477	10	-	487
Accrued interest	-	374	-	374
Due from other funds	5,386	-	-	5,386
Due from other governments	-	-	18,460	18,460
Inventories	727	-	-	727
Noncurrent assets:				
Capital assets, net of accumulated depreciation/amortization	-	-	28,406	28,406
Total assets	35,247	1,624,270	123,633	1,783,150
Liabilities				
Current liabilities:				
Accounts payable	1,054	16,644	3,284	20,982
Salaries and benefits payable	-	-	2,654	2,654
Due to other funds	-	90	155	245
Due to other governments	-	505	-	505
Compensated absences	-	-	2,864	2,864
Non-current liabilities:				
Net OPEB liability	-	-	1,974	1,974
Total liabilities	1,054	17,239	10,931	29,224
Net Position				
Invested in capital assets	-	-	28,406	28,406
Unrestricted	34,193	1,607,031	84,296	1,725,520
Total net position	\$ 34,193	1,607,031	112,702	1,753,926

See accompanying independent auditor's report.

Lee County

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

Year ended June 30, 2013

	Employee			Total
	Supplies	Health Plan Trust	Information Technology	
Operating revenues:				
Reimbursements from operating funds and other governmental units	\$ 89,199	2,005,469	179,491	2,274,159
Reimbursements from employees and others	-	164,047	-	164,047
Miscellaneous reimbursements	-	10,289	-	10,289
Total operating revenues	<u>89,199</u>	<u>2,179,805</u>	<u>179,491</u>	<u>2,448,495</u>
Operating expenses:				
Medical and health services	-	2,158,244	-	2,158,244
Salaries and benefits	-	-	81,933	81,933
Administrative fees, network access fees and stop-loss premium	-	48,973	-	48,973
Supplies, utilities and data processing	93,990	2,854	66,009	162,853
Maintenance agreements	-	-	12,647	12,647
Non-capitalized equipment	-	-	3,326	3,326
Depreciation/amortization	-	-	24,140	24,140
Total operating expenses	<u>93,990</u>	<u>2,210,071</u>	<u>188,055</u>	<u>2,492,116</u>
Operating loss	(4,791)	(30,266)	(8,564)	(43,621)
Non-operating revenues:				
Interest income	-	6,853	-	6,853
Net loss	(4,791)	(23,413)	(8,564)	(36,768)
Net position beginning of year	38,984	1,630,444	121,266	1,790,694
Net position end of year	<u>\$ 34,193</u>	<u>1,607,031</u>	<u>112,702</u>	<u>1,753,926</u>

See accompanying independent auditor's report.

Lee County

Lee County
Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2013

	Employee			Total
	Supplies	Health Plan Trust	Information Technology	
Cash flows from operating activities:				
Cash received from operating funds and other governmental units	\$ 90,336	2,005,470	161,031	2,256,837
Cash received from employees and others	-	174,609	-	174,609
Cash paid to suppliers for services	(97,551)	(2,206,838)	(163,951)	(2,468,340)
Net cash used by operating activities	(7,215)	(26,759)	(2,920)	(36,894)
Cash flows from investing activities:				
Interest on investments	-	7,264	-	7,264
Decrease in cash and cash equivalents	(7,215)	(19,495)	(2,920)	(29,630)
Cash and cash equivalents beginning of year	35,872	1,643,381	79,687	1,758,940
Cash and cash equivalents end of year	\$ 28,657	1,623,886	76,767	1,729,310
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	\$ (4,791)	(30,266)	(8,564)	(43,621)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation/amortization	-	-	24,140	24,140
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(301)	273	-	(28)
Increase in due from other governments	-	-	(18,460)	(18,460)
Decrease in due from other funds	1,437	-	-	1,437
Decrease in inventories	4,638	-	-	4,638
Increase (decrease) in accounts payable	(8,198)	2,907	1,783	(3,508)
Increase (decrease) in salaries and benefits payable	-	(239)	88	(151)
Increase (decrease) in due to other funds	-	61	(44)	17
Increase in due to other governments	-	505	-	505
Decrease in compensated absences	-	-	(1,768)	(1,768)
Decrease in net OPEB liability	-	-	(95)	(95)
Net cash used by operating activities	\$ (7,215)	(26,759)	(2,920)	(36,894)

See accompanying independent auditor's report.

Lee County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2013

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Schools
Assets					
Cash, cash equivalents and pooled investments:					
County Treasurer	\$ -	3,568	364,713	32,012	275,338
Other County officials	264,998	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	1,092	2,190	-	87,435
Succeeding year	-	224,000	450,000	-	15,678,000
Accounts	4,522	-	-	7,881	-
Accrued interest	-	-	-	-	-
Special assessments	-	-	-	-	-
Drainage assessments:					
Current	-	-	-	188,772	-
Future	-	-	-	989,137	-
Due from other governments	-	-	-	839,118	-
Total assets	\$ 269,520	228,660	816,903	2,056,920	16,040,773
Liabilities					
Accounts payable	\$ -	-	320	61,883	-
Salaries and benefits payable	-	-	9,618	-	-
Due to other governments	25,400	228,660	789,354	-	16,040,773
Trusts payable	244,120	-	-	-	-
Compensated absences	-	-	17,611	-	-
Bank loan	-	-	-	1,995,037	-
Total liabilities	\$ 269,520	228,660	816,903	2,056,920	16,040,773

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
17,790	160,370	5,540	640,119	161	175,501	549,261	2,224,373
-	-	-	-	-	-	-	264,998
5,494	59,690	1,192	-	-	-	42	157,135
1,136,000	10,992,000	368,000	-	-	-	5,000	28,853,000
-	-	-	-	-	-	4,230	16,633
-	-	-	-	-	-	115	115
-	-	-	-	-	-	167,879	167,879
-	-	-	-	-	-	-	188,772
-	-	-	-	-	-	-	989,137
-	-	-	-	-	-	49,348	888,466
1,159,284	11,212,060	374,732	640,119	161	175,501	775,875	33,750,508
-	-	-	-	-	-	35,131	97,334
-	-	-	-	-	-	26,106	35,724
1,159,284	11,212,060	374,732	640,119	161	175,501	702,688	31,348,732
-	-	-	-	-	-	330	244,450
-	-	-	-	-	-	11,620	29,231
-	-	-	-	-	-	-	1,995,037
1,159,284	11,212,060	374,732	640,119	161	175,501	775,875	33,750,508

Lee County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2013

Assets and Liabilities	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts
Balances beginning of year	\$ 254,087	222,558	934,586	1,069,748
Additions:				
Property and other county tax	-	223,896	450,686	-
E911 surcharges	-	-	-	-
State tax credits	-	10,338	21,814	-
Drivers license fees	-	-	-	-
Office fees and collections	768,523	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	1,048,448
Trusts	1,262,137	-	-	-
Miscellaneous	-	-	52	3,105,225
Total additions	<u>2,030,660</u>	<u>234,234</u>	<u>472,552</u>	<u>4,153,673</u>
Deductions:				
Agency remittances:				
To other funds	488,599	-	-	-
To other governments	283,041	228,132	590,235	3,166,501
Trusts paid out	1,243,587	-	-	-
Total deductions	<u>2,015,227</u>	<u>228,132</u>	<u>590,235</u>	<u>3,166,501</u>
Balances end of year	<u>\$ 269,520</u>	<u>228,660</u>	<u>816,903</u>	<u>2,056,920</u>

See accompanying independent auditor's report.

Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
16,757,849	1,116,854	11,081,713	349,537	623,063	161	306,570	819,258	33,535,984
15,811,207	1,137,368	11,237,568	356,720	-	-	-	5,270	29,222,715
-	-	-	-	-	-	-	86,892	86,892
770,479	51,308	371,546	17,722	-	-	-	242	1,243,449
-	-	-	-	-	128,662	-	-	128,662
-	-	-	-	-	-	-	-	768,523
-	-	-	-	8,489,631	-	-	-	8,489,631
-	-	-	-	-	-	-	-	1,048,448
-	-	-	-	-	-	1,077,324	496,461	2,835,922
-	-	-	-	-	-	-	2,362,899	5,468,176
16,581,686	1,188,676	11,609,114	374,442	8,489,631	128,662	1,077,324	2,951,764	49,292,418
-	-	-	-	357,363	-	-	-	845,962
17,298,762	1,146,246	11,478,767	349,247	8,115,212	128,662	-	2,394,673	45,179,478
-	-	-	-	-	-	1,208,393	600,474	3,052,454
17,298,762	1,146,246	11,478,767	349,247	8,472,575	128,662	1,208,393	2,995,147	49,077,894
16,040,773	1,159,284	11,212,060	374,732	640,119	161	175,501	775,875	33,750,508

Lee County

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

For the Last Ten Years

	2013	2012	2011	2010
Revenues:				
Property and other county tax	\$ 10,398,427	10,226,662	10,193,550	9,599,284
Local option sales tax	1,511,657	1,409,188	1,508,640	1,614,653
Tax increment financing	-	-	-	-
Interest and penalty on property tax	148,139	145,270	141,028	143,078
Intergovernmental	7,944,450	10,657,595	9,899,246	9,143,676
Licenses and permits	93,635	105,568	98,426	86,269
Charges for service	1,028,187	916,932	943,735	867,688
Use of money and property	311,682	292,716	309,502	326,842
Miscellaneous	374,143	408,049	371,510	303,476
Total	<u>\$ 21,810,320</u>	<u>24,161,980</u>	<u>23,465,637</u>	<u>22,084,966</u>
Expenditures:				
Operating:				
Public safety and legal services	\$ 4,255,457	4,422,016	4,185,481	3,888,632
Physical health and social services	4,234,139	3,982,400	3,882,964	3,817,068
Mental health	2,683,788	6,615,100	4,824,623	4,327,187
County environment and education	1,292,962	1,115,886	1,189,364	1,493,459
Roads and transportation	4,703,670	4,552,964	4,476,579	3,790,575
Governmental services to residents	958,573	958,038	903,704	893,551
Administration	2,026,221	2,022,340	2,305,653	2,216,598
Non-program	17,038	-	63,199	103,361
Debt service	815,576	813,334	818,097	747,089
Capital projects	100,416	648,571	271,567	2,199,820
Total	<u>\$ 21,087,840</u>	<u>25,130,649</u>	<u>22,921,231</u>	<u>23,477,340</u>

See accompanying independent auditor's report.

Modified Accrual Basis					
2009	2008	2007	2006	2005	2004
9,329,877	9,040,272	9,320,366	9,344,253	6,717,193	7,541,799
1,444,024	1,448,841	1,425,915	1,422,521	1,335,189	1,208,235
-	-	393,163	750,066	693,545	-
135,727	132,804	270,733	136,627	119,478	135,959
9,684,756	9,758,681	8,719,573	8,732,583	7,459,664	7,962,245
82,522	72,023	55,974	62,265	53,283	61,716
899,956	934,639	873,083	892,849	822,513	855,211
482,356	494,545	471,460	364,782	298,128	279,467
314,528	240,354	494,190	1,123,788	1,962,381	1,987,823
22,373,746	22,122,159	22,024,457	22,829,734	19,461,374	20,032,455
3,689,993	3,618,670	3,512,938	3,332,940	3,105,607	3,049,182
3,913,476	3,535,142	3,275,224	3,134,004	3,385,130	3,514,564
4,584,834	4,732,019	4,662,962	4,396,349	4,741,619	4,070,197
1,405,654	1,537,120	1,617,237	1,675,269	1,625,156	1,608,790
3,763,046	4,000,157	3,862,651	3,928,318	3,897,439	3,578,306
961,591	916,840	878,334	1,144,205	902,033	853,197
2,036,986	2,203,781	1,912,371	1,842,355	1,816,882	1,695,306
261,564	4,465,490	16,000	-	-	-
736,339	90,769	416,396	1,373,528	2,461,854	1,438,510
3,865,711	774,443	603,521	361,224	591,036	611,245
25,219,194	25,874,431	20,757,634	21,188,192	22,526,756	20,419,297

Lee County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

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 the Supplemental Nutrition Assistance Program	10.561		\$ 19,521
U.S. Department of Justice:			
Governor's Office of Drug Control Policy:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	10-JAG-42801	18,100
Edward Byrne Memorial Justice Assistance Grant Program	16.738	10-JAG-43293	68,400
			<u>86,500</u>
City of Keokuk:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0219	5,216
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0219	748
			<u>5,964</u>
			<u>92,464</u>
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 12-04 Task 12	8,812
State and Community Highway Safety	20.600	PAP 13-04 Task 12	3,191
			<u>12,003</u>
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		6,351
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Public Health Emergency Preparedness	93.069	5882BT56	3,383
Public Health Emergency Preparedness	93.069	5883BT56	21,264
			<u>24,647</u>
Immunization Cooperative Agreements	93.268	5882I447	6,868
Immunization Cooperative Agreements	93.268	5883I447	7,596
			<u>14,464</u>
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	5882CH06	97,590
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	5883CH06	215,058
			<u>312,648</u>
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	93.531	5882HP12	47,166
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	93.531	5883HP12	65,581
			<u>112,747</u>

Lee County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

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:			
Maternal and Child Health Services Block Grant to the States	93.994	5882MH15	18,837
Maternal and Child Health Services Block Grant to the States	93.994	5883MH15	31,776
Maternal and Child Health Services Block Grant to the States	93.994	5883DH03	12,200
			<u>62,813</u>
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Refugee and Entrant Assistance - State Administered Programs	93.566		90
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		4,523
Foster Care - Title IV-E	93.658		6,804
Adoption Assistance	93.659		1,901
Social Services Block Grant	93.667		5,926
Children's Health Insurance Program	93.767		74
Medical Assistance Program	93.778		19,447
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Hazard Mitigation Grant	97.039	DR-1688-0007-00	8,525
Emergency Management Performance Grants	97.042	EMPG-12-PT-56	22,817
Emergency Management Performance Grants	97.042	EMPG-13-PT-56	16,011
			<u>38,828</u>
Story County:			
Homeland Security Grant Program	97.067	GY10	1,050
Total			<u>\$ 744,826</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 in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

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 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, the 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, 2013, and the related Notes to Financial Statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 24, 2014. Our report includes a reference to other auditors who audited the financial statements of Lincoln Ridge Limited Partnership, a blended component unit, as described in our report on Lee County's financial statements. The financial statements of Lincoln Ridge Limited Partnership were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lee County's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lee County's internal control. Accordingly, we do not express an opinion on the effectiveness of Lee County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-13 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-13 through II-D-13 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


Lee County's Responses to the Findings

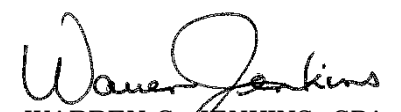
Lee County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Lee County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 24, 2014

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control over Compliance
Required by OMB Circular A-133**

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Officials of Lee County:

Report on Compliance for Each Major Federal Program

We have audited Lee County, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. Lee County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Lee County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each of the major federal programs. However, our audit does not provide a legal determination of Lee County's compliance.

Opinion on Each Major Federal Program

In our opinion, Lee County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.


Report on Internal Control Over Compliance


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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 24, 2014

Lee County
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 93.505 – Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program
 - CFDA Number 93.531 – PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – financed solely by 2012 Prevention and Public Health Funds
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lee County did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. The following weaknesses in the offices identified were noted for which no compensating controls exist:

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

County Sheriff Jail – Generally, one individual in the Sheriff's office may have control over receipts/deposits for the Commissary account. An independent person does not compare amounts deposited to the receipt records.

County Sheriff Civil – Bank reconciliations are not always reviewed by an independent person.

Protective Payee Office – Checks are not signed by an independent person. Bank reconciliations are performed by the same individual who signs checks. Although the bank reconciliations are reviewed by an independent person, the review is not considered sufficient.

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

Responses –

County Recorder – We will review our controls and try to make changes where possible given our limited staff.

County Sheriff Jail – We have an electronic commissary. No person has control over an inmate's ledger, as the money is posted electronically after deposit in an "ATM". The Jail Administrator prepares the deposit from the computer generated records. We can select an independent individual to compare deposits with the system report.

County Sheriff Civil – We will attempt to review bank reconciliations.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Protective Payee Office - At this time due to physical distance and time sensitivity for allowance of personal money to beneficiaries, delineation of check preparation and check signature is not possible. In order to address this issue, Lee County will ensure propriety by ensuring another individual other than the preparer handles deposits to individual accounts. (Note the Lee County Protective Payee process is to have payee funds direct deposited into their respective account straight from Social Security.) There are check stubs maintained with individual's signatures for receipt of personal needs checks that individuals pick up. All other checks are mailed directly to the individual per request. All other payments will be made directly to the vendor(s) for a person's maintenance of home, safety and security. Reconciliation sheets will continue to be reviewed and signed off on by persons other than the preparers. Additionally, there is administrative sign off for monthly reconciliations/claims processing method. This includes the bank statements with copy of checks/deposits included. Furthermore, Administrator, Ryanne Wood will review one randomly chosen payee file from both North and South Lee accounts on a monthly basis with all supporting documents/receipts from client file to ensure appropriate supporting documents are available and enhance the sufficiency to identify and/or cease any conditions that would lend themselves to impropriety and/or misuse of funds. A test audit form with signature will be maintained in the Administrator's office and available for audit review upon request.

Conclusions - Responses accepted.

II-B-13 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, 2013, the County did not update the listing for additions or deletions and the listing was not distributed to each department to review for accuracy.

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

Response - The County Auditor's Office has attempted to have the entire inventory updated by providing a list to all departments. Not all departments returned the listing with any additions or deletions. Auditor staff will have the Board of Supervisors send a message to the departments to emphasize the need for the listing to be returned.

Conclusion - Response accepted.

II-C-13 County Sheriff - We noted the following related to financial reporting and reconciling in the Sheriff's Office:

Civil - Although the Sheriff's Office prepared a year-to-date spreadsheet of receipts and disbursements, the spreadsheet did not reconcile to beginning and ending book balances. Bank reconciliations are prepared each month and are reconciled with the book balance. However, the book balance is not reconciled with the fees owed to the County, State and trusts on hand at the end of each month.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Jail – The Sheriff’s Office does not print a listing of inmate trust balances at the end of each month.

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

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

Responses:

Civil – We are working with the County Auditor to devise a spreadsheet.

Jail – We will generate a listing of the amounts held for inmates monthly.

Conclusion – Responses accepted.

II-D-13 Conservation Foundation – Three Rivers Conservation Foundation, a component unit of the County, receives donations to fund various conservation projects within the County. The Foundation did not prepare annual financial statements. Only monthly financial statements were provided. The activity from the monthly financial statements did not reconcile to the ending balance on the year end balance sheet. These matters were resolved for audit purposes.

Recommendation – The Foundation should prepare monthly bank reconciliations to ensure the monthly balance sheets and income statements reconcile to its bank and investment statements. Also, the Foundation should prepare annual financial statements. The bank reconciliations should be reviewed and signed or initialed by an independent person.

Response – The Foundation will reconcile monthly balance sheets and bank and investment statements. Once prepared, the statements will be reviewed by an independent person. The Foundation will also prepare annual financial statements going forward.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the debt service function.

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

Response - The Budget Director will run a report on a monthly basis to make sure no function goes over the spending limit.

Conclusion - Response accepted.

IV-B-13 Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-13 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-D-13 Business Transactions - Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Ernie Steffensmeier, County Engineer, brother owns Steffensmeier Welding	Welding	\$ 4,799
Ernie Schiller, Board of Supervisors, daughter is Weed Commissioner	Weed eradication	6,888
Tammy Wilson, Financial Director of Public Health, husband is a shareholder in Agrineed Inc.	Supplies and maintenance - other County Departments	5,228
Craig Burch, Sheriff's Department, wife owns C & J Burch Rentals, LLC	Rental	280

In accordance with Chapter 331.342(2)(j) of the Code of Iowa, the transactions with Steffensmeier Welding and the Weed Commissioner may represent conflicts of interest since the total transactions with each exceeded \$1,500 during the fiscal year and were not competitively bid.

The transactions with Agrineed, Inc. for supplies and maintenance for other County Departments do not appear to represent conflicts of interest in accordance with Chapter 331.342(2)(d) since the employee is not directly affected as a result of the transactions and her duties of employment do not directly involve procurement or preparation of any part of the transactions.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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

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

Response – The Weed Commissioner position was posted this year. We will consult the County Attorney for advice on the conflict of interest matters. A committee is also working on revising the County Bid Policy.

Conclusion – Response accepted.

IV-E-13 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be periodically reviewed to ensure the coverage is adequate for current operations.

IV-F-13 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-G-13 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, except the Conservation Board opened a bank account at First Community Bank, Keokuk, Iowa to process cabin rental payments made by credit card. The bank account is not included on the depository resolution established by the Board of Supervisors as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the board.

Response – The Conservation Board will request the Board of Supervisors include First Community Bank for the deposit of cabin credit card revenue up to \$7,000 to comply with the Code of Iowa.

Conclusion – Response accepted.

IV-H-13 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-13 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, 2013 for the County Extension Office did not exceed the amount budgeted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

IV-J-13 Monies and Credit Tax – In accordance with Chapter 533.329 of the Code of Iowa, the County Treasurer collects the monies and credit tax from state credit unions. The County Treasurer is to apportion the collections to the general funds of the County, City and State at 20%, 30% and 50%, respectively. The County did not properly apportion the tax collections as required from fiscal year 2005 through fiscal year 2013. The collections were held in the County’s General Fund until fiscal year 2013, at which time the County Treasurer disbursed 100% of the collections to the State.

Recommendation – The County should apportion the monies and credit tax as required. The County Treasurer should seek reimbursement for the amount over paid to the State and distribute the appropriate amounts to the cities and County.

Response – We have received reimbursement for the overpayment made to the State and have apportioned the funds to the correct districts. We are working to get on track to apportion these funds each year as required.

Conclusion – Response accepted.

IV-K-13 Deficit Fund Balances – The Special Revenue, Lincoln Ridge Limited Partnership Fund and the Capital Projects Fund had deficit fund balances of \$20,512 and \$14,263, respectively, at June 30, 2013.

Recommendation – The County should investigate alternatives to eliminate the deficit balances in order to return the funds to a sound financial position.

Response – The Great River Progressive Housing Board has had several meetings with Keyway Management in reference to occupancy and maintenance of the Lincoln Ridge property. Strategies have been created to address presenting issues, including opening service affiliation with another provider locally, working with local vendors that are reliable and cost effective, and utilizing alternative resources to fill vacancies in a tighter timeframe. All parties identify and commit to bringing the property and its services into good financial and physical standing.

The fund balance deficit for the Capital Projects Fund was eliminated when bonds were sold and deposited in the fund.

Conclusion – Response accepted.

IV-L-13 Competitive Bidding – The County did not follow the proper bidding procedures required by Chapter 26.3 of the Code of Iowa for the jail expansion project. Public improvement contracts exceeding \$130,000 in total cost are required to follow competitive bidding procedures. In addition, no public hearing was held concerning the project. A public hearing per Chapter 26.12 of the Iowa Code is required when public improvement costs exceed the competitive bid threshold.

Recommendation – The County should consult legal counsel to determine the disposition of these matters.

Response – We will make sure this procedure is followed in the future.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

IV-M-13 Early Childhood Iowa Area Board – Lee County is the fiscal agent for the Early Childhood Iowa Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. Financial transactions of the Area Board are included in the County’s financial statements as part of the Other Agency Funds because of the County’s fiduciary relationship with the organization.

Certain expenditures for food and refreshments at meetings totaling \$260 were noted which may not meet the purpose for which the grants were provided.

Recommendation – The Area Board should determine and document how these expenditures meet the intended purpose of the grants before authorizing any further payments.

Response – The above referenced expenses consisted of four claims throughout the year as follows: \$35.70 on September 17, 2012 for the conference room and refreshments at Village Cup and Cakes for a Board meeting, \$99.91 on November 16, 2012 for the conference room and refreshments at Ivy Bake Shoppe for an Early Childhood Task Force retreat, \$30.35 on January 14, 2013 for the conference room and refreshments at Ivy Bake Shoppe for a Board meeting and \$94.17 on May 18, 2013 for the conference room and refreshments at the Village Cup and Cakes for a Board retreat. All four of the above claims were paid from School Ready Administrative funds, which is an allowable fund for such expenses.

Conclusion – Response acknowledged. The Area Board should determine and document how meeting refreshments serve a public purpose and the purpose of the grant.

Lee County

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Donna F. Kruger, CPA, Manager
Daniel L. Grady, Senior Auditor II
Tracey L. Gerrish, Staff Auditor
Kelsey J. Kranz, Staff Auditor
Elissa R. Olson, Staff Auditor
Jesse J. Harthan, Assistant Auditor
Benjamin P. James, Assistant Auditor
Janell R. Wieland, Assistant Auditor
Tyler G. Huedepohl, Auditor Intern

A handwritten signature in black ink, reading "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