



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE

July 1, 2005

Contact: Andy Nielsen
515/281-5834

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

The County had local tax revenue of \$34,623,900 for the year ended June 30, 2004, which included \$2,122,636 in tax credits from the state. The County forwarded \$26,735,445 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$7,888,455 of the local tax revenue to finance County operations, a 2 percent decrease from the prior year. Other revenues included charges for service of \$3,004,654, operating grants, contributions and restricted interest of \$5,889,542, capital grants, contributions and restricted interest of \$1,718,003, local option sales tax of \$1,208,235, unrestricted investment earnings of \$137,309, sale of low income housing credits to investors of \$246,930, supplemental debt service payments to the County for tax increment urban renewal revenue bonds of \$1,435,734 and other general revenues of \$331,715.

Expenses for County operations totaled \$20,390,944, a less than 1 percent increase from the prior year. Expenses included \$4,635,720 for roads and transportation, \$3,919,114 for mental health and \$3,589,192 for physical health and social services.

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

###

LEE COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

Table of Contents

		Page
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14-15
Statement of Activities	B	17
Governmental Fund Financial Statements:		
Balance Sheet	C	18-19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	24
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	25
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	26
Statement of Cash Flows	I	27
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Assets and Liabilities – Agency Funds	J	28
Notes to Financial Statements		29-45
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds		48-49
Budget to GAAP Reconciliation		50
Notes to Required Supplementary Information – Budgetary Reporting		51
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	54-55
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	56-57
Internal Service Funds:		
Combining Schedule of Net Assets	3	58
Combining Schedule of Revenues, Expenditures and Changes in Fund Net Assets	4	59
Combining Schedule of Cash Flows	5	61
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	6	62-63
Combining Schedule of Changes in Fiduciary Assets and Liabilities	7	64-65
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	8	66
Schedule of Expenditures of Federal Awards	9	68-69
Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting		71-72
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance		75-76
Schedule of Findings and Questioned Costs		77-86
Staff		87

Lee County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Matt Pflug	Board of Supervisors	Jan 2005
Robert J. Woodruff	Board of Supervisors	Jan 2005
Daniel J. Dunagan	Board of Supervisors	Jan 2007
Anne M. Pedersen	County Auditor	Jan 2005
Mary C. Hoenig	County Treasurer	Jan 2007
Larry J. Holtkamp	County Recorder	Jan 2007
David L. Ireland	County Sheriff	Jan 2005
Michael P. Short	County Attorney	Jan 2007
Janice C. Calvert	County Assessor	Jan 2010

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report

To the Officials of Lee County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lee County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Lee County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lincoln Ridge Limited Partnership, a blended component unit, which financial statements reflect total assets of \$608,466 and total revenues of \$1,421,792. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended component unit, is based solely on the report of other auditors.

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

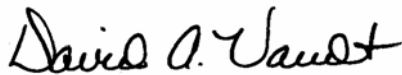
The financial statements of Lee County EMS Ambulance, Inc., the County's only discretely presented component unit, have not been audited, and we were not engaged to audit the financial statements of Lee County EMS Ambulance, Inc. as part of our audit of the County's basic financial statements. As described in Note 14, the County has chosen to present condensed financial information for Lee County EMS Ambulance, Inc. Because Lee County EMS Ambulance, Inc.'s financial statements have not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the condensed financial information of the discretely presented component unit of the County as of and for the year ended December 31, 2003.

In addition, in our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lee County at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

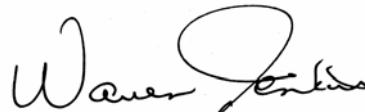
In accordance with Government Auditing Standards, we have also issued our reports dated November 5, 2004 on our consideration of Lee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 48 through 51 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lee County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 5, 2004

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, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at June 30, 2004 by \$28.5 million.
- Lee County's net assets increased \$1.5 million from FY03 to FY04.
- Governmental fund revenues in FY04 decreased 5.8%, or approximately \$1,225,000, from FY03. Property and other county tax increased in FY04 approximately \$38,000 from FY03. The tax levy rate increased overall by \$.18342 per \$1,000 of valuation while the countywide and rural services property valuations increased by \$3.2 million and \$5.6 million, respectively. The tax levy rates for mental health and rural services decreased and the levy rate for the General Fund increased.
- Governmental fund expenditures decreased by 8.4%, or approximately \$1,883,000, from FY03 to FY04.
- The County is in the third year of implementation of the Lee County Economic Development Plan. The goal of this plan is to bring much needed jobs to the County, thus employing our citizens and increasing the County's tax base. The Lee County Board of Supervisors, other than budgetary, allows this department to function with considerable autonomy. However, our future goals are to develop a more hands on approach to insure the success of this program.

USING THIS ANNUAL REPORT

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities

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

Government-wide financial statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus and report information about the County as a whole using accounting methods similar to those used by private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

- The Statement of Net Assets includes all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The Statement of Activities presents information showing how the County's net assets changed during the fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

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

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

FUND FINANCIAL STATEMENTS

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

The County has three (3) kinds of funds:

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

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

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As described in Note 15 on page 45, beginning governmental activities net assets increased by \$1,309,940 to correct for capital assets previously excluded. To enhance comparability, all amounts presented for fiscal year 2003 in this discussion and analysis were revised, where applicable, to reflect these changes as if the changes had been made in the prior year.

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below shows the County's total net assets at June 30, 2004 and June 30, 2003.

Net Assets of Governmental Activities		
(Expressed in Thousands)		
	June 30,	
	2004	2003
Current and other assets	\$ 17,398	16,564
Capital assets	25,828	24,668
Total assets	<u>43,226</u>	<u>41,232</u>
Long-term liabilities	5,006	5,931
Other liabilities	9,670	8,221
Total liabilities	<u>14,676</u>	<u>14,152</u>
Net assets:		
Invested in capital assets, net of related debt	25,011	24,015
Restricted	4,869	3,666
Unrestricted	<u>(1,330)</u>	<u>(601)</u>
Total net assets	<u>\$ 28,550</u>	<u>27,080</u>

Lee County's total net assets increased by approximately \$1.5 million, or 5.43%. The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. Debt related to capital assets is liquidated with sources other than capital assets. The County's improved financial position is also the product of many other factors. Total revenues decreased by approximately \$831,000 and expenditures held fairly steady, with an increase of approximately \$66,000 from FY03 to FY04. Revenues still exceeded expenditures for FY04. Comparatively, FY03 had a non-recurring special item of approximately \$235,000 for the sale of the County home.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements, is at a deficit of \$1.3 million. The deficit unrestricted net assets results primarily from the County's liability for tax increment urban renewal revenue bonds issued on behalf of the City of Keokuk and Roquette America, Inc. to construct a floodwall. The County does not own and, accordingly, has not recorded the assets for which this debt was issued.

Changes in Net Assets of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Revenues:		
Program revenues:		
Charges for service	\$ 3,005	2,829
Operating grants, contributions and restricted interest	5,889	6,264
Capital grants, contributions and restricted interest	1,718	984
General revenues:		
Property tax	7,378	7,340
Penalty and interest on property tax	71	148
Gaming wager tax	91	85
State tax credits	511	728
Local option sales tax	1,208	1,277
Grants and contributions not restricted		
to specific purposes	43	267
Unrestricted investment earnings	137	223
Sale of low income housing tax credits to investor	247	988
Supplemental debt service payment for tax increment urban renewal revenue bonds	1,436	1,424
Gain on disposition of capital assets	44	87
Other general revenues	83	48
Total revenues	<u>21,861</u>	<u>22,692</u>
Program expenses:		
Public safety and legal services	3,111	2,819
Physical health and social services	3,589	3,812
Mental health	3,919	3,926
County environment and education	1,615	1,254
Roads and transportation	4,636	4,642
Governmental services to residents	888	827
Administration	1,919	2,338
Non-program	380	320
Interest on long-term debt	334	387
Total expenses	<u>20,391</u>	<u>20,325</u>
Increase in net assets before special item	1,470	2,367
Special item:		
Gain on sale of county home	-	235
Increase in net assets	1,470	2,602
Net assets beginning of year, as restated	<u>27,080</u>	<u>24,478</u>
Net assets end of year	<u>\$ 28,550</u>	<u>27,080</u>

For FY04, Lee County increased property tax rates by \$.20141 per \$1,000 of valuation in the countywide levy and decreased property tax rates by \$.01799 per \$1,000 of valuation for the rural levy. These rates were applied to the increased countywide assessed property valuation of \$3,191,301 and rural assessed property valuation of \$5,606,775. The net effect of these changes in levies and valuations was a net increase in property tax of approximately \$38,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Lee County completed FY04, its governmental funds reported a combined fund balance of \$6,743,147, which is less than the \$7,128,837 combined fund balance for FY03.

The General Fund, the operating fund for Lee County, ended FY04 with an ending balance totaling \$2,635,554, a decrease of \$959,305. Revenues, including a special item in FY03 of \$500,000, decreased approximately \$493,000 while expenditures increased approximately \$193,000.

The Mental Health Fund ended FY04 with a balance of \$757,787, an increase of \$309,661 over FY03. This increase is less than the increase of \$667,000 from FY02 to FY03, primarily due to a FY04 decrease in revenues of \$233,000 and increase in expenditures of \$124,000.

The Secondary Roads Fund ended FY04 with a \$2,360,248 balance, compared to the prior year ending balance of \$2,169,478. While revenues in this fund decreased by \$142,000, primarily in intergovernmental revenues, expenditures also decreased by \$292,000. The decrease in expenditures is due primarily to a decrease in capital project expenditures in the Secondary Roads Fund.

BUDGETARY HIGHLIGHTS

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

Over the course of the year, Lee County amended its budget once, in May 2004. The amendment was made to reflect re-estimated figures obtained during the next year's budget process and to allow for refunding of the tax increment urban renewal revenue bonds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of FY04, the County had invested \$25.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment, transportation equipment and administrative offices. This amount is a net increase of approximately \$1.2 million over FY03. The significant changes to capital assets during FY04 included the purchase of a motor grader, purchase of land for conservation and the transfer of jurisdiction from the State to the County for 14.35 miles of rural roads valued at \$561,605.

Lee County had depreciation expense of \$1.6 million in FY04 and total accumulated depreciation of \$16.5 million at June 30, 2004. Additional information about the County's capital assets is included in Note 5 to the financial statements.

Long-Term Debt

At year-end, the County had \$4.6 million in revenue bonds and other long-term debt outstanding. This represents a decrease of 17% from the prior year.

Outstanding debt decreased as a result of revenue bond and other long-term debt payments due and paid during the year. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Lee County's outstanding general obligation debt is significantly below its constitutional debt limit of \$51.2 million. Additional information about the County's long-term debt is included in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Amounts budgeted for expenditure in the FY05 operating budget are approximately \$22.9 million, an increase of 16.8% from the final FY04 actual disbursements of \$19.6 million. The County's General Fund is expected to end FY05 with an ending fund balance of \$1.5 million, compared to the June 30, 2004 actual cash balance of \$2.9 million. This is the result of the Board's efforts to spend down fund balances to finance current programs.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Exhibit A

Lee County
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 8,114,770
Receivables:	
Property tax:	
Delinquent	57,898
Succeeding year	6,798,000
Succeeding year tax increment financing	725,000
Interest and penalty on property tax	101,728
Accounts	64,677
Accrued interest	14,782
Due from other governments	949,655
Inventories	556,051
Prepaid rent	15,500
Capital assets (net of accumulated depreciation)	<u>25,827,713</u>
Total assets	<u>43,225,774</u>
Liabilities	
Accounts payable	978,812
Salaries and benefits payable	329,418
Due to other governments	838,794
Deferred revenue:	
Succeeding year property tax	6,798,000
Succeeding year tax increment financing	725,000
Long-term liabilities:	
Portion due or payable within one year:	
Tax increment urban renewal revenue bonds	1,175,000
Real estate installment contract	19,450
Bank loans	24,078
Installment purchase agreement	27,415
Lincoln Ridge developer agreement	206,733
Compensated absences	275,270
Portion due or payable after one year:	
Tax increment urban renewal revenue bonds	2,580,000
Real estate installment contract	70,438
Bank loans	440,497
Installment purchase agreement	28,238
Compensated absences	<u>159,055</u>
Total liabilities	<u>14,676,198</u>

Lee County
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Net Assets	
Invested in capital assets, net of related debt	25,010,864
Restricted for:	
Supplemental levy purposes	410,279
Mental health purposes	763,892
Secondary roads purposes	2,318,771
Hospice care:	
Expendable	15,554
Nonexpendable	82,500
Building repair and maintenance	661,900
Other purposes	616,464
Unrestricted	<u>(1,330,648)</u>
Total net assets	<u>\$ 28,549,576</u>

See notes to financial statements.

Lee County

Lee County
Statement of Activities
Year ended June 30, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 3,110,778	211,458	119,122	-	(2,780,198)
Physical health and social services	3,589,192	1,610,085	665,327	-	(1,313,780)
Mental health	3,919,142	139,371	2,067,860	-	(1,711,911)
County environment and education	1,615,177	63,635	272,000	273,050	(1,006,492)
Roads and transportation	4,635,720	57,033	2,744,355	1,444,953	(389,379)
Governmental services to residents	887,818	538,011	-	-	(349,807)
Administration	1,919,563	30,852	20,874	-	(1,867,837)
Non-program	380,044	354,209	4	-	(25,831)
Interest on long-term debt	333,510	-	-	-	(333,510)
Total	\$ 20,390,944	3,004,654	5,889,542	1,718,003	(9,778,745)
General Revenues:					
Property and other county tax levied for general purposes					7,377,612
Penalty and interest on property tax					70,847
Gaming wager tax					90,563
State tax credits					510,843
Local option sales tax					1,208,235
Grants and contributions not restricted to specific purpose					42,931
Unrestricted investment earnings					137,309
Sale of low income housing tax credits to investor					246,930
Supplemental debt service payments made to County by Roquette America, Inc.					1,435,734
Gain on disposition of capital assets					44,156
Miscellaneous					83,218
Total general revenues					11,248,378
Change in net assets					1,469,633
Net assets beginning of year, as restated					27,079,943
Net assets end of year					\$ 28,549,576

See notes to financial statements.

Lee County
Balance Sheet
Governmental Funds

June 30, 2004

	Special Revenue		
	General	Mental Health	Secondary Roads
Assets			
Cash and pooled investments:			
County Treasurer	\$ 2,875,850	1,631,686	1,731,011
Bankers Trust escrow	-	-	-
Component units	-	-	-
Receivables:			
Property tax:			
Delinquent	43,351	11,738	-
Succeeding year	4,937,000	1,337,000	-
Succeeding year tax increment financing	-	-	-
Interest and penalty on property tax	101,728	-	-
Accounts	60,207	2,872	1,093
Accrued interest	10,181	-	-
Due from other governments	524,076	198	295,964
Inventories	-	-	546,356
Prepaid rent	-	-	-
Total assets	\$ 8,552,393	2,983,494	2,574,424
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 330,620	250,732	65,038
Salaries and benefits payable	243,081	4,464	69,503
Due to other funds	2,522	344	56
Due to other governments	183,977	621,882	750
Deferred revenue:			
Succeeding year property tax	4,937,000	1,337,000	-
Succeeding year tax increment financing	-	-	-
Other	219,639	11,285	78,829
Total liabilities	<u>5,916,839</u>	<u>2,225,707</u>	<u>214,176</u>
Fund balances:			
Reserved for:			
Inventories	-	-	546,356
Supplemental levy purposes	426,041	-	-
Debt service	-	-	-
Hospice care	-	-	-
Building repair and maintenance	661,900	-	-
Medicaid administrative reimbursements	13,540	-	-
Unreserved:			
Designated for future capital projects	500,000	-	-
Undesignated, reported in:			
General fund	1,034,073	-	-
Special revenue funds	-	757,787	1,813,892
Total fund balances	<u>2,635,554</u>	<u>757,787</u>	<u>2,360,248</u>
Total liabilities and fund balances	\$ 8,552,393	2,983,494	2,574,424

See notes to financial statements.

Nonmajor	Total
515,079	6,753,626
11,282	11,282
406,280	406,280
2,809	57,898
524,000	6,798,000
725,000	725,000
-	101,728
297	64,469
440	10,621
129,417	949,655
-	546,356
15,500	15,500
<u>2,330,104</u>	<u>16,440,415</u>
54,954	701,344
9,684	326,732
-	2,922
24,368	830,977
524,000	6,798,000
725,000	725,000
2,540	312,293
<u>1,340,546</u>	<u>9,697,268</u>
-	546,356
-	426,041
21,979	21,979
98,054	98,054
-	661,900
-	13,540
-	500,000
-	1,034,073
869,525	3,441,204
<u>989,558</u>	<u>6,743,147</u>
<u>2,330,104</u>	<u>16,440,415</u>

Lee County

Lee County

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

June 30, 2004

Total governmental fund balances (page 19) \$ 6,743,147

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$42,166,276 and the accumulated depreciation is \$16,417,174. 25,749,102

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 312,293

The Internal Service Funds are used by management to charge the costs of various services to individual departments and funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets. 694,342

Long-term liabilities, including bonds payable, loans payable, contracts/agreements payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. (4,949,308)

Net assets of governmental activities (page 15) \$ 28,549,576

See notes to financial statements.

Lee County

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

Year ended June 30, 2004

	Special Revenue		
	General	Mental Health	Secondary Roads
Revenues:			
Property and other county tax	\$ 5,246,824	1,996,686	-
Interest and penalty on property tax	135,959	-	-
Intergovernmental	2,797,237	2,156,663	2,723,440
Licenses and permits	61,366	-	350
Charges for service	825,108	-	88
Use of money and property	132,696	77,454	1,279
Miscellaneous	150,091	4,585	66,977
Total revenues	<u>9,349,281</u>	<u>4,235,388</u>	<u>2,792,134</u>
Expenditures:			
Operating:			
Public safety and legal services	3,049,182	-	-
Physical health and social services	3,511,951	-	-
Mental health	-	3,925,727	-
County environment and education	919,337	-	-
Roads and transportation	-	-	3,477,910
Governmental services to residents	850,910	-	-
Administration	1,695,306	-	-
Debt service	-	-	-
Capital projects	261,250	-	349,995
Total expenditures	<u>10,287,936</u>	<u>3,925,727</u>	<u>3,827,905</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(938,655)</u>	<u>309,661</u>	<u>(1,035,771)</u>
Other financing sources (uses):			
Sale of capital assets	-	-	1,152
Operating transfers in	25,000	-	1,225,389
Operating transfers out	(45,650)	-	-
Total other financing sources (uses)	<u>(20,650)</u>	<u>-</u>	<u>1,226,541</u>
Net change in fund balances	(959,305)	309,661	190,770
Fund balances beginning of year	3,594,859	448,126	2,169,478
Fund balances end of year	<u>\$ 2,635,554</u>	<u>757,787</u>	<u>2,360,248</u>

See notes to financial statements.

Nonmajor	Total
1,506,524	8,750,034
-	135,959
284,905	7,962,245
-	61,716
30,015	855,211
68,038	279,467
1,766,170	1,987,823
<u>3,655,652</u>	<u>20,032,455</u>
-	3,049,182
2,613	3,514,564
144,470	4,070,197
689,453	1,608,790
100,396	3,578,306
2,287	853,197
-	1,695,306
1,438,510	1,438,510
-	611,245
<u>2,377,729</u>	<u>20,419,297</u>
<u>1,277,923</u>	<u>(386,842)</u>
-	1,152
-	1,250,389
(1,204,739)	(1,250,389)
<u>(1,204,739)</u>	<u>1,152</u>
73,184	(385,690)
916,374	7,128,837
<u>989,558</u>	<u>6,743,147</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, 2004

Net change in fund balances - Total governmental funds (page 23) \$ (385,690)

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

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

Expenditures for capital assets	\$ 1,141,878	
Capital assets contributed by the Iowa Department of Transportation	1,384,697	
Other capital asset contributions	12,800	
Depreciation expense	<u>(1,596,736)</u>	942,639

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the proceeds from the sale increase financial resources in the governmental funds. 43,004

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	(9,780)	
Other	<u>27,513</u>	17,733

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

Issued	(5,888)	
Repaid	<u>1,127,753</u>	1,121,865

Compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (16,421)

The Internal Service Funds are used by management to charge the costs of various services to individual departments and funds. The increase in net assets of the Internal Service Funds is included in governmental activities in the Statement of Net Assets. (253,497)

Change in net assets of governmental activities (page 17) \$ 1,469,633

See notes to financial statements.

Lee County
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Internal Service
Assets	
Current assets:	
Cash and cash equivalents	\$ 943,582
Receivables:	
Accounts	208
Accrued interest	4,161
Due from other funds	2,942
Inventories	9,695
Noncurrent assets:	
Capital assets, net of accumulated depreciation	78,611
Total assets	1,039,199
Liabilities	
Current liabilities:	
Accounts payable	277,468
Salaries and benefits payable	2,686
Due to other funds	20
Due to other governments	7,817
Installment purchase agreement	27,415
Compensated absences	1,213
Non-current liabilities:	
Installment purchase agreement	28,238
Total liabilities	344,857
Net Assets	
Invested in capital assets, net of related debt	22,958
Unrestricted	671,384
Total net assets	\$ 694,342

See notes to financial statements.

Exhibit H

Lee County

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

Year ended June 30, 2004

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds and other governmental units		\$ 1,625,391
Reimbursements from employees and others		258,318
Miscellaneous		206
Total operating revenues		<u>1,883,915</u>
Operating expenses:		
Medical and health services	\$ 1,713,405	
Supplemental insurance	11,407	
Salaries and benefits	64,883	
Administrative fees, network access fees and stop-loss premium	235,592	
Supplies, utilities and data processing	60,350	
Maintenance agreements	903	
Repair and maintenance	1,656	
Equipment	28,708	
Miscellaneous	18	
Depreciation	32,863	2,149,785
Operating loss		<u>(265,870)</u>
Non-operating revenues (expenses):		
Interest income		14,522
Interest expense		(2,149)
Total non-operating revenues (expenses)		<u>12,373</u>
Net loss		(253,497)
Net assets beginning of year		<u>947,839</u>
Net assets end of year		<u>\$ 694,342</u>

See notes to financial statements.

Lee County
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2004

	Internal Service
Cash flows from operating activities:	
Cash received from operating funds and other governmental units	\$ 1,623,015
Cash received from employees and others	258,318
Cash paid to suppliers for services	(2,046,914)
Net cash used by operating activities	(165,581)
Cash flows from capital and related financing activities:	
Principal paid on installment purchase agreement	(26,615)
Interest paid on installment purchase agreement	(2,149)
Net cash used by capital and related financing activities	(28,764)
Cash flows from investing activities:	
Interest on investments	2,271
Net decrease in cash and cash equivalents	(192,074)
Cash and cash equivalents beginning of year	1,135,656
Cash and cash equivalents end of year	\$ 943,582
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (265,870)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	32,863
Changes in asset and liabilities:	
(Increase) in accounts receivable	(2,581)
(Increase) in inventories	(3,675)
Increase in accounts payable and due to other governments	72,631
Increase in salaries and benefits payable	20
Increase in due to other funds	517
Increase in compensated absences	514
Net cash used by operating activities	\$ (165,581)

See notes to financial statements.

Lee County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

Assets

Cash and pooled investments:

County Treasurer	\$ 1,497,836
Other County officials	197,056

Receivables:

Property tax:

Delinquent	267,789
Succeeding year	22,597,000
Accounts	1,180
Accrued interest	410
Special assessments	55,931

Total assets24,617,202**Liabilities**

Accounts payable	12,819
Salaries and benefits payable	13,423
Due to other governments	24,317,310
Trusts payable	255,987
Compensated absences	17,663

Total liabilities24,617,202**Net assets**\$ -

See notes to financial statements.

Lee County

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

The Lincoln Ridge Limited Partnership is an agreement between the Great River Progressive Housing Corporation (General Partner) and Lee County Development Corporation (Limited Partner) pursuant to the provisions of the Iowa Uniform Limited Partnership Act. The Partnership is established for the sole purpose of engaging in the business of constructing, acquiring, developing, owning, renting, leasing and disposing of a residential multi-dwelling housing project of up to 16 units for hard to house persons of low income. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Lincoln Ridge Limited Partnership meets the definition of a component unit that should be blended. The partnership's financial report for December 31, 2003 includes only six months of activity and accordingly, only six months of activity is included in this report. Future reports will include twelve months of activity. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

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

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

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

Discretely Presented Component Unit

The 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, Iowa. In accordance with the agreement, ambulance service is primarily financed through revenue from recipients of the services and through a subsidy provided by the County. The Lee County Board of Supervisors must approve user rates and changes to these rates.

In accordance with criteria set forth by the Governmental Accounting Standards Board, the EMS meets the definition of a component unit that should be discretely presented. Condensed financial statements for the year ended December 31, 2003 presented in Note 14 were prepared on the accrual basis of accounting. Unaudited financial statements can be obtained from the Lee County EMS Ambulance, Inc., 314 South Main Street, Donnellson, IA. 50265.

Jointly Governed Organizations

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to

certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2003.

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

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

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

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

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

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation benefits and compensatory time for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary 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, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

Unrestricted Net Assets – The unrestricted net assets of the Internal Service Funds are 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, 2004, disbursements in one department exceeded the amount appropriated.

(2) Cash and Pooled Investments

The County’s deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had investments in the Automated Government Money Trust which are valued at an amortized cost of \$93,758 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
Internal Service:		
Supplies	General	\$ 2,522
	Special Revenue:	
	Mental Health	344
	Secondary Roads	56
	Internal Service:	
	Employee Health Plan Trust	20
Total		\$ 2,942

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, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Rural Services	\$ 25,000
Special Revenue: Secondary Roads	General Special Revenue: Rural Services	45,650 <u>1,179,739</u>
Total		<u>\$ 1,250,389</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, 2004 was as follows:

	Balance Beginning of Year, as restated	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 458,953	261,689	(6,773)	713,869
Land, road network	100,517	652,945		753,462
Construction in progress	917,324	1,005,851	(1,689,575)	233,600
Total capital assets not being depreciated	<u>1,476,794</u>	<u>1,920,485</u>	<u>(1,696,348)</u>	<u>1,700,931</u>
Capital assets being depreciated:				
Buildings	7,464,964	169,493	-	7,634,457
Improvements other than buildings	623,221	194,095	(123,600)	693,716
Equipment and vehicles	5,122,940	535,007	(257,545)	5,400,402
Equipment - internal service	178,103	-	-	178,103
Infrastructure, road network	25,047,195	1,689,575	-	26,736,770
Total capital assets being depreciated	<u>38,436,423</u>	<u>2,588,170</u>	<u>(381,145)</u>	<u>40,643,448</u>
Less accumulated depreciation for:				
Buildings	2,656,020	204,337	-	2,860,357
Improvements other than buildings	524,951	24,769	(123,600)	426,120
Equipment and vehicles	2,947,732	509,802	(234,350)	3,223,184
Equipment - internal service	66,629	32,863	-	99,492
Infrastructure, road network	9,049,685	857,828	-	9,907,513
Total accumulated depreciation	<u>15,245,017</u>	<u>1,629,599</u>	<u>(357,950)</u>	<u>16,516,666</u>
Total capital assets being depreciated, net	<u>23,191,406</u>	<u>958,571</u>	<u>(23,195)</u>	<u>24,126,782</u>
Governmental activities capital assets, net	<u>\$ 24,668,200</u>	<u>2,879,056</u>	<u>(1,719,543)</u>	<u>25,827,713</u>

Depreciation expense was charged to the following functions:

Governmental activities:		
Public safety and legal services		\$ 40,472
Physical health and social services		40,061
Mental health		56,414
County environment and education		23,735
Roads and transportation		1,249,539
Governmental services to residents		13,579
Administration		<u>205,799</u>
Total depreciation expense - governmental activities		<u><u>\$ 1,629,599</u></u>

(6) Due to Other Governments

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

Fund	Description	Amount
General	Services	<u>\$ 183,977</u>
Special Revenue:		
Mental Health	Services	621,882
Secondary Roads	Services	750
Rural Services	Services	24,368
		<u>647,000</u>
Total for governmental funds		<u><u>\$ 830,977</u></u>
Internal Service:		
Employee Health Plan Trust		<u><u>\$ 7,817</u></u>
Agency:		
County Assessor	Collections	\$ 628,040
Schools		13,836,278
Community Colleges		884,675
Corporations		7,786,651
Auto License and Use Tax		553,208
All other		<u>628,458</u>
Total for agency funds		<u><u>\$ 24,317,310</u></u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Tax Increment Urban Renewal Revenue Bonds	Real Estate Installment Contract	Bank Loan	Installment Purchase Agreement	Great River Progressive Housing Corporation Bank Loan	Lincoln Ridge Developer Agreement	Compen- sated Absences	Total
Balance beginning of year	\$ 4,860,000	84,000	97,812	82,268	389,516	-	417,390	5,930,986
Increases	-	5,888	-	-	-	206,733	442,154	654,775
Decreases	1,105,000	-	4,531	26,615	18,222	-	425,219	1,579,587
Balance end of year	\$ 3,755,000	89,888	93,281	55,653	371,294	206,733	434,325	5,006,174
Due within one year	\$ 1,175,000	19,450	4,800	27,415	19,278	206,733	275,270	1,727,946

Tax Increment Urban Renewal Revenue Bonds

The County sold \$10,260,000 of tax increment urban renewal revenue bonds dated December 1, 1994 to construct a floodwall within the limits of the County and the City of Keokuk. The bonds are payable from the income and proceeds of the Keokuk Flood Wall Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. On November 1, 1994, the County entered into an agreement with the City of Keokuk and Roquette America, Inc. which provides for supplemental payments to be made to the County in the event taxes are insufficient to service the debt. During the year ended June 30, 2004, the County received payments of \$1,435,734 from Roquette America, Inc. to pay the principal, interest and other fees due on the bonds. The bonds are not a general obligation of the County. However, the debt is subject to the constitutional debt limitation of the County.

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

Year ending June 30,	Interest Rates	Principal	Interest	Total
2005	6.30%	\$ 1,175,000	239,145	1,414,145
2006	6.40	1,250,000	165,120	1,415,120
2007	6.00	1,330,000	85,120	1,415,120
Total		\$ 3,755,000	489,385	4,244,385

During the year ended June 30, 2004, principal of \$1,105,000 on these bonds was retired.

Real Estate Installment Contract

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

In August 2002, the agreement was revised. Under the revised agreement, the County will make five annual installments, including interest at a rate adjusted annually on May 31, with the final payment due May 31, 2009. During the year ended June 30, 2004, the balance on the loan increased by \$5,888, to \$89,888, due to accrued interest being capitalized. The County made no payments on the loan during the year ended June 30, 2004.

Bank Loan

In January 2002, the County entered into a loan agreement with a bank to borrow \$100,000 for the construction of apartments to house persons with disabilities. In October 2002, the County modified the loan agreement, extending the maturity date to October 15, 2017 and requiring semi-annual payments, including interest at 5.55% per annum. The balance of the loan at June 30, 2004 was \$93,281.

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

Year ending June 30,	Interest Rates	Principal	Interest	Total
2005	5.55%	\$ 4,800	5,111	9,911
2006	5.55	5,070	4,841	9,911
2007	5.55	5,356	4,555	9,911
2008	5.55	5,645	4,266	9,911
2009	5.55	5,974	3,937	9,911
2010–2014	5.55	35,300	14,258	49,558
2015–2018	5.55	31,136	3,559	34,695
Total		\$ 93,281	40,527	133,808

During the year ended June 30, 2004, the County paid principal of \$4,513 on the loan.

Installment Purchase Agreement

In April 2003, the County entered into an installment purchase agreement for \$82,268 to purchase a computer. The agreement bears interest at the rate of 3.02% per annum and requires quarterly payments of \$7,191, including interest, with the final payment due on June 1, 2006. The balance of the agreement at June 30, 2004 was \$55,653.

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

Year ending June 30,	Interest Rates	Principal	Interest	Total
2005	3.02%	\$ 27,415	1,349	28,764
2006	3.02	28,238	526	28,764
Total		\$ 55,653	1,875	57,528

During the year ended June 30, 2004, the County paid \$28,784 on the agreement, including principal of \$26,615 and interest of \$2,169.

Great River Progressive Housing Corporation Bank Loan

On January 13, 2003, the Great River Progressive Housing Corporation (GRPHC), general partner to Lincoln Ridge Limited Partnership (LRLP), entered into a loan agreement with a bank to borrow \$400,000 for the construction of a low-income housing project for persons with mental disabilities. The loan bears interest at the rate of 5.41% per annum and requires semi-annual payments on December 15 and June 15 of \$19,555, including interest, with the final payment due on December 15, 2017. The amount of each principal and interest payment is equivalent to Lee County's payment to the GRPHC pursuant to a service agreement. During the year ended June 30, 2004, the GRPHC paid principal of \$18,222 and interest of \$20,887 on the loan. The balance owed on the loan at June 30, 2004 was \$371,294.

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

Year ending June 30,	Interest Rates	Principal	Interest	Total
2005	5.41%	\$ 19,278	19,831	39,109
2006	5.41	20,335	18,774	39,109
2007	5.41	21,450	17,659	39,109
2008	5.41	22,582	16,527	39,109
2009	5.41	23,864	15,245	39,109
2010-2014	5.41	140,412	55,133	195,545
2015-2018	5.41	123,373	13,740	137,113
Total		\$ 371,294	156,909	528,203

Lincoln Ridge Developer Agreement

The Lincoln Ridge Limited Partnership (LRLP) entered into a development agreement with an affiliate of the general partner for a developer fee of 15% of the total project costs related to construction of a low income housing program. Developer fees of \$206,733 have been capitalized. The developer fee was paid in March 2004. However, this amount is included as a liability on the Statement of Net Assets at June 30, 2004 because LRLP has a December 31 year end and the liquidation of this liability will be reported in the year ended December 31, 2004.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%,

respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$334,279, \$329,001 and \$326,716, respectively, equal to the required contributions for each year.

(9) Contingent Liabilities

Solid Waste Disposal Bonds

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

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

Details of this contingent liability at June 30, 2004 are as follows:

2003 General Obligation Solid Waste Disposal Refunding Bonds			
Year ending June 30,	Interest Rates	Principal	Interest
2005	1.60%	\$ 850,000	49,095
2006	1.90	855,000	35,495
2007	2.20	875,000	19,250
Total		\$ 2,580,000	103,840

South Iowa Area Detention Service Agency

The South Iowa Area Detention Service Agency (SIADSA) is a public authority established in 1991 under a 28E agreement by Appanoose, Davis, Des Moines, Jefferson, Lee, Lucas, Louisa, Mahaska, Union and Wapello counties. In May 1991, SIADSA issued \$2,300,000 in capital loan note certificates for construction of the detention center facilities and purchase of equipment. Each member county authorized separate loan agreements with SIADSA which were pledged as security for SIADSA's debt obligation through the 2005/2006 fiscal year.

During the year ended June 30, 2004, SIADSA refinanced the 1991 debt issuance to receive better interest rates. Each member county consented to SIADSA incurring indebtedness to refund the 1991 capital loan note certificates for cost savings and pledged the 1991 loan agreements as security for the new debt obligation provided the refunding debt does not extend beyond the 2005/2006 fiscal year.

Although Lee County has authorized the loan agreement, it has not issued any debt as a guarantor for SIADSA. Accordingly, the County remains contingently liable in the event SIADSA cannot satisfy its debt obligation.

(10) Endowment

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

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

(11) Rural Community 2000 Program Loan

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

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

The County is required to remit the proceeds of the loan repayments from the Rathbun Regional Water Association to the Iowa Department of Economic Development. The County's liability for repayment of the loan is limited to the amount collected from the Rathbun Regional Water Association. Therefore, the liability for the loan is not recorded by the County. The outstanding balance on this loan at June 30, 2004 was \$81,323.

(12) Risk Management

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

(13) Employee Health Insurance Plan

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

Monthly payments of service fees and plan contributions to the Employee Health Plan Trust Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark from the Employee Health Plan Trust Fund. The County's contribution to the fund for the year ended June 30, 2004 was \$1,397,012.

Amounts payable from the Employee Health Plan Trust Fund at June 30, 2004 total \$276,151, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior year and current year claims and to establish a reserve for catastrophic losses. That reserve was \$400,690 and is reported as a designation of the Employee Health Plan Trust Fund net assets. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liabilities for claims for the current year is as follows:

Unpaid claims at July 1, 2003	\$ 208,924
Incurred claims (including claims incurred but not reported as of June 30, 2004)	1,780,632
Payments on claims during the fiscal year	<u>1,713,405</u>
Unpaid claims at June 30, 2004	<u>\$ 276,151</u>

(14) Lee County EMS Ambulance, Inc.

The Lee County EMS Ambulance, Inc. (EMS) provides ambulance service for Lee County, Iowa. The EMS reports its financial activity using a calendar year end. As permitted by GASB Statement No. 34, the County has opted to present condensed financial information for its discretely presented component unit. Following is the unaudited condensed financial information for EMS for the year ended December 31, 2003.

Condensed Statement of Net Assets	
December 31, 2003	
(Unaudited)	
Assets	
Current assets:	
Capital assets, net of accumulated depreciation	\$ 262,185
Other	<u>346,281</u>
Total assets	<u>608,466</u>
Liabilities	
Long-term liabilities	125,838
Other	<u>116,689</u>
Total liabilities	<u>242,527</u>
Net assets:	
Invested in capital assets, net of related debt	98,835
Unrestricted	<u>267,104</u>
Total net assets	<u>\$ 365,939</u>

Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets
Year ended December 31, 2003
(Unaudited)

Operating revenues:		
Patient income	\$	1,012,329
County subsidy		390,000
Other		4,028
Total operating revenues		1,406,357
Operating expenses:		
Salaries and benefits	\$	1,038,704
Insurance		170,776
Other		211,565
Operating loss		(14,688)
Non-operating revenues (expenses):		
Gain on sale of capital asset		3,000
Interest income		12,203
Interest expense		(9,794)
Other		232
Net loss		(9,047)
Net assets beginning of year		374,986
Net assets end of year	\$	365,939

(15) Restatement

Beginning net assets for governmental activities has been restated due to errors in reporting capital assets in a prior year. The restatement increased the beginning net assets as follows:

Net assets, June 30, 2003, as previously reported	\$	25,770,003
Correction for capital assets previously excluded, net of \$78,128 accumulated depreciation		1,309,940
Net assets July 1, 2003, as restated	\$	27,079,943

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, 2004

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Property and other county tax	\$ 8,796,750	-
Interest and penalty on property tax	136,717	-
Intergovernmental	7,953,860	189,109
Licenses and permits	60,023	-
Charges for service	860,244	-
Use of money and property	294,976	44,377
Miscellaneous	1,984,281	329,859
Total receipts	<u>20,086,851</u>	<u>563,345</u>
Disbursements:		
Public safety and legal services	2,995,951	-
Physical health and social services	3,416,711	45
Mental health	3,610,400	49,676
County environment and education	1,659,818	297,408
Roads and transportation	3,606,375	-
Governmental services to residents	858,598	-
Administration	1,635,787	-
Debt service	1,443,091	-
Capital projects	689,149	-
Total disbursements	<u>19,915,880</u>	<u>347,129</u>
Excess (deficiency) of receipts over (under) disbursements	170,971	216,216
Other financing sources, net	2,183	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	173,154	216,216
Balance beginning of year	<u>6,998,034</u>	<u>190,064</u>
Balance end of year	<u>\$ 7,171,188</u>	<u>406,280</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
8,796,750	8,819,594	8,802,619	(5,869)
136,717	129,516	134,690	2,027
7,764,751	8,601,008	8,217,228	(452,477)
60,023	77,150	70,397	(10,374)
860,244	744,785	873,232	(12,988)
250,599	443,180	349,807	(99,208)
1,654,422	1,577,555	5,387,818	(3,733,396)
19,523,506	20,392,788	23,835,791	(4,312,285)
2,995,951	2,972,354	3,039,886	43,935
3,416,666	3,780,799	3,650,327	233,661
3,560,724	4,147,903	3,729,619	168,895
1,362,410	1,049,667	1,446,591	84,181
3,606,375	3,975,194	3,808,795	202,420
858,598	903,879	946,121	87,523
1,635,787	2,586,452	1,920,646	284,859
1,443,091	1,458,567	5,250,000	3,806,909
689,149	886,000	845,807	156,658
19,568,751	21,760,815	24,637,792	5,069,041
(45,245)	(1,368,027)	(802,001)	756,756
2,183	-	1,040	(1,143)
(43,062)	(1,368,027)	(800,961)	757,899
6,807,970	5,174,167	6,807,970	-
6,764,908	3,806,140	6,007,009	757,899

Lee County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 20,086,851	(54,396)	20,032,455
Expenditures	19,915,880	503,417	20,419,297
Net	170,971	(557,813)	(386,842)
Other financing sources, net	2,183	(1,031)	1,152
Beginning fund balances	6,998,034	130,803	7,128,837
Ending fund balances	\$ 7,171,188	(428,041)	6,743,147

See accompanying independent auditor's report.

Lee County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the 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, one budget amendment increased budgeted disbursements by \$2,876,977. 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, 2004, disbursements in one department exceeded the amount appropriated.

Lee County

Other Supplementary Information

Lee County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

						Special
	Resource Enhancement and Protection	County Recorder's Records Management	Keokuk Floodwall	Great River Progressive Housing Corp	Lincoln Ridge Limited Partnership	
Assets	Rural Services					
Cash and pooled investments						
County Treasurer	\$ 165,554	14,152	30,684	-	-	-
Bankers Trust escrow	-	-	-	11,282	-	-
Component units	-	-	-	-	36	309,440
Receivables:						
Property tax:						
Delinquent	2,809	-	-	-	-	-
Succeeding year	524,000	-	-	-	-	-
Succeeding year tax increment financing	-	-	-	725,000	-	-
Accounts	-	-	-	-	-	166
Accrued interest	-	19	39	-	-	-
Due from other governments	129,417	-	-	-	-	-
Prepaid rent	-	-	-	-	-	-
Total assets	\$ 821,780	14,171	30,723	736,282	36	309,606
Liabilities and Fund Equity						
Liabilities:						
Accounts payable	\$ 937	-	-	-	-	54,017
Salaries and benefits payable	3,334	1,314	-	-	-	-
Due to other governments	24,368	-	-	-	-	-
Deferred revenue						
Succeeding year property tax	524,000	-	-	-	-	-
Succeeding year tax increment financing	-	-	-	725,000	-	-
Other	2,540	-	-	-	-	-
Total liabilities	555,179	1,314	-	725,000	-	54,017
Fund equity:						
Fund balances:						
Reserved for:						
Debt service	-	-	-	11,282	-	-
Hospice care	-	-	-	-	-	-
Unreserved:						
Undesignated	266,601	12,857	30,723	-	36	255,589
Total fund equity	266,601	12,857	30,723	11,282	36	255,589
Total liabilities and fund equity	\$ 821,780	14,171	30,723	736,282	36	309,606

See accompanying independent auditor's report.

Revenue										
Lee County										
Economic	Three Rivers	Friends of		Conservation					Permanent	
Development	Conservation	Public	Electronic	Land	Memorial	Neff	Debt	Neff		Total
Group	Foundation	Health	Transaction	Acquisition	Trust	Memorial	Service	Memorial	Memorial	
-	-	-	22,689	6,896	166,476	15,445	10,683		82,500	515,079
-	-	-	-	-	-	-	-	-	-	11,282
18,007	61,064	17,733	-	-	-	-	-	-	-	406,280
-	-	-	-	-	-	-	-	-	-	2,809
-	-	-	-	-	-	-	-	-	-	524,000
-	-	-	-	-	-	-	-	-	-	725,000
-	-	-	-	-	131	-	-	-	-	297
-	-	-	30	9	220	109	14	-	-	440
-	-	-	-	-	-	-	-	-	-	129,417
15,500	-	-	-	-	-	-	-	-	-	15,500
33,507	61,064	17,733	22,719	6,905	166,827	15,554	10,697		82,500	2,330,104
-	-	-	-	-	-	-	-	-	-	54,954
5,036	-	-	-	-	-	-	-	-	-	9,684
-	-	-	-	-	-	-	-	-	-	24,368
-	-	-	-	-	-	-	-	-	-	524,000
-	-	-	-	-	-	-	-	-	-	725,000
-	-	-	-	-	-	-	-	-	-	2,540
5,036	-	-	-	-	-	-	-	-	-	1,340,546
-	-	-	-	-	-	-	10,697		-	21,979
-	-	-	-	-	-	15,554	-		82,500	98,054
28,471	61,064	17,733	22,719	6,905	166,827	-	-		-	869,525
28,471	61,064	17,733	22,719	6,905	166,827	15,554	10,697		82,500	989,558
33,507	61,064	17,733	22,719	6,905	166,827	15,554	10,697		82,500	2,330,104

Lee County

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

Year ended June 30, 2004

		Resource	County			Special
	Rural	Enhancement	Recorder's	Keokuk	Great River	Lincoln Ridge
	Services	and	Records	Floodwall	Progressive	Limited
		Protection	Management		Housing Corp	Partnership
Revenues:						
Property and other county tax	\$ 1,506,524	-	-	-	-	-
Intergovernmental	79,976	15,820	-	-	39,109	-
Charges for service	-	-	7,326	-	-	-
Use of money and property	-	90	433	40	-	61,917
Miscellaneous	94	-	-	1,435,734	-	257,348
Total revenues	1,586,594	15,910	7,759	1,435,774	39,109	319,265
Expenditures:						
Operating:						
Physical health and social services	-	-	-	-	-	-
Mental health	-	-	-	-	39,109	105,361
County environment and education	417,419	6,778	-	-	-	-
Roads and transportation	100,396	-	-	-	-	-
Governmental services to residents	2,287	-	-	-	-	-
Debt service	-	-	-	1,438,510	-	-
Total expenditures	520,102	6,778	-	1,438,510	39,109	105,361
Excess (deficiency) of revenues over (under) expenditures	1,066,492	9,132	7,759	(2,736)	-	213,904
Other financing uses:						
Operating transfers out	(1,204,739)	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(138,247)	9,132	7,759	(2,736)	-	213,904
Fund balances beginning of year	404,848	3,725	22,964	14,018	36	41,685
Fund balances end of year	\$ 266,601	12,857	30,723	11,282	36	255,589

See accompanying independent auditor's report.

Revenue									
Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Electronic Transaction	Conservation Land Acquisition	Memorial Trust	Neff Memorial	Debt Service	Permanent Neff Memorial	Total
-	-	-	-	-	-	-	-	-	1,506,524
150,000	-	-	-	-	-	-	-	-	284,905
-	-	-	22,689	-	-	-	-	-	30,015
497	642	-	30	113	2,625	1,475	176	-	68,038
15,645	40,021	-	-	-	17,328	-	-	-	1,766,170
166,142	40,663	-	22,719	113	19,953	1,475	176	-	3,655,652
-	-	45	-	-	2,568	-	-	-	2,613
-	-	-	-	-	-	-	-	-	144,470
220,299	44,957	-	-	-	-	-	-	-	689,453
-	-	-	-	-	-	-	-	-	100,396
-	-	-	-	-	-	-	-	-	2,287
-	-	-	-	-	-	-	-	-	1,438,510
220,299	44,957	45	-	-	2,568	-	-	-	2,377,729
(54,157)	(4,294)	(45)	22,719	113	17,385	1,475	176	-	1,277,923
-	-	-	-	-	-	-	-	-	(1,204,739)
(54,157)	(4,294)	(45)	22,719	113	17,385	1,475	176	-	73,184
82,628	65,358	17,778	-	6,792	149,442	14,079	10,521	82,500	916,374
28,471	61,064	17,733	22,719	6,905	166,827	15,554	10,697	82,500	989,558

Schedule 3

Lee County
 Combining Schedule of Net Assets
 Internal Service Funds

June 30, 2004

	Supplies	Employee Health Plan Trust	Information Technology	Total
Assets				
Current assets:				
Cash and pooled investments	\$ 16,977	680,381	246,224	943,582
Receivables:				
Accounts	47	136	25	208
Accrued interest	-	4,161	-	4,161
Due from other funds	2,942	-	-	2,942
Inventories	9,695	-	-	9,695
Noncurrent assets:				
Capital assets, net of accumulated depreciation	-	-	78,611	78,611
Total assets	29,661	684,678	324,860	1,039,199
Liabilities				
Current liabilities:				
Accounts payable	149	276,151	1,168	277,468
Salaries and benefits payable	-	-	2,686	2,686
Due to other funds	-	20	-	20
Due to other governments	-	7,817	-	7,817
Installment purchase agreement	-	-	27,415	27,415
Compensated absences	-	-	1,213	1,213
Non-current liabilities:				
Installment purchase agreement	-	-	28,238	28,238
Total liabilities	149	283,988	60,720	344,857
Net Assets				
Invested in capital assets, net of related debt	-	-	22,958	22,958
Unrestricted	29,512	400,690	241,182	671,384
	\$ 29,512	400,690	264,140	694,342

See accompanying independent auditor's report.

Lee County

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

Year ended June 30, 2004

	Supplies	Employee Health Plan Trust	Information Technology	Total
Operating revenues:				
Reimbursements from operating funds and other governmental units	\$ 42,843	1,397,012	185,536	1,625,391
Reimbursements from employees and others	-	258,318	-	258,318
Miscellaneous	181	-	25	206
Total operating revenues	<u>43,024</u>	<u>1,655,330</u>	<u>185,561</u>	<u>1,883,915</u>
Operating expenses:				
Medical and health services	-	1,713,405	-	1,713,405
Supplemental insurance	-	11,407	-	11,407
Salaries and benefits	-	-	64,883	64,883
Administrative fees, network access fees and stop-loss premium	-	235,592	-	235,592
Supplies, utilities and data processing	37,160	1,231	21,959	60,350
Maintenance agreements	-	-	903	903
Repair and maintenance	-	-	1,656	1,656
Non-capitalized equipment	-	-	28,708	28,708
Miscellaneous	-	18	-	18
Depreciation	-	-	32,863	32,863
Total operating expenses	<u>37,160</u>	<u>1,961,653</u>	<u>150,972</u>	<u>2,149,785</u>
Operating income (loss)	<u>5,864</u>	<u>(306,323)</u>	<u>34,589</u>	<u>(265,870)</u>
Non-operating revenues (expenses):				
Interest income	-	14,522	-	14,522
Interest expense	-	-	(2,149)	(2,149)
Total non-operating revenues (expenses)	<u>-</u>	<u>14,522</u>	<u>(2,149)</u>	<u>12,373</u>
Net income (loss)	<u>5,864</u>	<u>(291,801)</u>	<u>32,440</u>	<u>(253,497)</u>
Net assets beginning of year	<u>23,648</u>	<u>692,491</u>	<u>231,700</u>	<u>947,839</u>
Net assets end of year	<u>\$ 29,512</u>	<u>400,690</u>	<u>264,140</u>	<u>694,342</u>

See accompanying independent auditor's report.

Lee County

Lee County
Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2004

	Supplies	Employee Health Plan Trust	Information Technology	Total
Cash flows from operating activities:				
Cash received from operating funds and other governmental units	\$ 40,037	1,397,442	185,536	1,623,015
Cash received from employees and others	-	258,318	-	258,318
Cash paid to suppliers for services	(40,803)	(1,886,588)	(119,523)	(2,046,914)
Net cash provided (used) by operating activities	(766)	(230,828)	66,013	(165,581)
Cash flows from capital and related financing activities:				
Principal paid on installment purchase agreement	-	-	(26,615)	(26,615)
Interest paid on installment purchase agreement	-	-	(2,149)	(2,149)
Net cash used by capital and related financing activities	-	-	(28,764)	(28,764)
Cash flows from investing activities:				
Interest on investments	-	2,271	-	2,271
Net increase (decrease) in cash and cash equivalents	(766)	(228,557)	37,249	(192,074)
Cash and cash equivalents beginning of year	17,743	908,938	208,975	1,135,656
Cash and cash equivalents end of year	\$ 16,977	680,381	246,224	943,582
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 5,864	(306,323)	34,589	(265,870)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	32,863	32,863
Changes in asset and liabilities:				
(Increase) decrease in accounts and other receivables	(2,987)	431	(25)	(2,581)
(Increase) in inventories	(3,675)	-	-	(3,675)
Increase (decrease) in accounts payable and due to other governments	32	75,044	(2,445)	72,631
Increase in salaries and benefits payable	-	-	517	517
Increase in due to other funds	-	20	-	20
Increase in compensated absences	-	-	514	514
Net cash provided (used) by operating activities	\$ (766)	(230,828)	66,013	(165,581)

See accompanying independent auditor's report.

Lee County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Solid Waste Debt Service
Assets					
Cash and pooled investments:					
County Treasurer	\$ -	2,937	284,804	4,378	8,822
Other County officials	142,679	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	1,444	3,253	-	-
Succeeding year	-	164,000	370,000	-	-
Accounts	286	-	-	-	-
Accrued interest	255	-	-	-	-
Special assessments	-	-	-	-	-
Total assets	\$ 143,220	168,381	658,057	4,378	8,822
Liabilities					
Accounts payable	\$ -	-	378	3,269	-
Salaries and benefits payable	-	-	11,976	-	-
Due to other governments	16,585	168,381	628,040	1,109	8,822
Trusts payable	126,635	-	-	-	-
Compensated absences	-	-	17,663	-	-
Total liabilities	\$ 143,220	168,381	658,057	4,378	8,822

See accompanying independent auditor's report.

Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Payee Accounts	Other	Total
263,129	17,900	156,986	4,381	553,208	-	201,291	1,497,836
-	-	-	-	-	54,377	-	197,056
133,149	7,775	120,665	1,467	-	-	36	267,789
13,440,000	859,000	7,509,000	251,000	-	-	4,000	22,597,000
-	-	-	-	-	-	894	1,180
-	-	-	-	-	-	155	410
-	-	-	-	-	-	55,931	55,931
13,836,278	884,675	7,786,651	256,848	553,208	54,377	262,307	24,617,202
-	-	-	-	-	-	9,172	12,819
-	-	-	-	-	-	1,447	13,423
13,836,278	884,675	7,786,651	256,848	553,208	-	176,713	24,317,310
-	-	-	-	-	54,377	74,975	255,987
-	-	-	-	-	-	-	17,663
13,836,278	884,675	7,786,651	256,848	553,208	54,377	262,307	24,617,202

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

Year ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Solid Waste Debt Service
Assets and Liabilities					
Balances beginning of year	\$ 169,779	144,224	599,341	127,858	8,822
Additions:					
Property and other county tax	-	179,065	397,812	-	-
E911 surcharges	-	-	-	-	-
State tax credits	-	10,676	19,976	-	-
Drivers license fees	-	-	-	-	-
Office fees and collections	603,756	-	-	-	-
Electronic transaction fees	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	100,395	-
Trusts	941,677	-	-	-	-
Miscellaneous	-	-	1,531	51,910	895,069
Total additions	1,545,433	189,741	419,319	152,305	895,069
Deductions:					
Agency remittances:					
To other funds	460,332	-	-	-	-
To other governments	147,962	165,584	360,603	275,785	895,069
Trusts paid out	963,698	-	-	-	-
Total deductions	1,571,992	165,584	360,603	275,785	895,069
Balances end of year	\$ 143,220	168,381	658,057	4,378	8,822

See accompanying independent auditor's report.

Schools	Community Colleges	Corpora- tions	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
12,803,567	887,000	7,221,544	242,663	533,801	-	-	262,001	23,000,600
14,900,050	947,607	8,430,342	264,266	-	-	-	4,510	25,123,652
-	-	-	-	-	-	-	88,029	88,029
958,486	65,227	540,194	16,889	-	-	-	345	1,611,793
-	-	-	-	-	242,427	-	-	242,427
-	-	-	-	-	-	-	-	603,756
-	-	-	-	-	-	-	36,630	36,630
-	-	-	-	6,909,647	-	-	-	6,909,647
-	-	-	-	-	-	-	33,720	134,115
-	-	-	-	-	-	693,504	821,681	2,456,862
-	-	-	-	269	-	-	65,899	1,014,678
15,858,536	1,012,834	8,970,536	281,155	6,909,916	242,427	693,504	1,050,814	38,221,589
-	-	-	-	284,187	67,790	-	-	812,309
14,825,825	1,015,159	8,405,429	266,970	6,606,322	174,637	-	250,327	33,389,672
-	-	-	-	-	-	639,127	800,181	2,403,006
14,825,825	1,015,159	8,405,429	266,970	6,890,509	242,427	639,127	1,050,508	36,604,987
13,836,278	884,675	7,786,651	256,848	553,208	-	54,377	262,307	24,617,202

Schedule 8

Lee County

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

For the Last Five Years

	Modified Accrual Basis				
	2004	2003	2002	2001	2000
Revenues:					
Property and other county tax	\$ 8,750,034	8,642,457	8,433,268	8,557,584	8,044,243
Interest and penalty on property tax	135,959	139,706	150,239	123,622	110,114
Intergovernmental	7,962,245	8,783,384	8,261,606	7,525,424	7,127,774
Licenses and permits	61,716	77,062	71,271	91,232	105,994
Charges for service	855,211	768,099	880,739	802,788	771,701
Use of money and property	279,467	258,595	388,840	588,654	575,235
Miscellaneous	1,987,823	2,588,161	1,673,160	1,457,648	1,778,115
Total	\$ 20,032,455	21,257,464	19,859,123	19,146,952	18,513,176
Expenditures:					
Operating:					
Public safety and legal services	\$ 3,049,182	2,773,197	2,722,325	2,531,644	2,510,998
Physical health and social services	3,514,564	3,767,970	3,630,793	3,426,169	3,044,325
Mental health	4,070,197	5,825,118	4,734,145	4,099,546	4,280,737
County environment and education	1,608,790	1,219,746	1,072,142	897,378	824,012
Roads and transportation	3,578,306	3,441,171	3,576,503	3,225,883	3,071,800
Governmental services to residents	853,197	812,745	788,302	743,819	650,298
Administration	1,695,306	2,263,147	2,051,982	2,306,705	2,464,100
Non-program	-	-	-	100,000	-
Debt service	1,438,510	1,428,737	1,427,498	1,577,169	1,547,987
Capital projects	611,245	770,797	275,207	577,356	138,207
Total	\$ 20,419,297	22,302,628	20,278,897	19,485,669	18,532,464

See accompanying independent auditor's report.

Lee County

Schedule 9

Lee County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative			
Reimbursements:			
State Administrative Matching Grants for			
Food Stamp Program	10.561		\$ 18,248
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS-C056(51)--8J-56	60,256
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 03-04 Task 22	2,433
State and Community Highway Safety	20.600	PAP 04-04 Task 22	3,840
			6,273
Safety Incentives to Prevent Operation of			
Motor Vehicles by Intoxicated Persons	20.605	PAP 04-163 Task 42	3,500
Environmental Protection Agency:			
Linn County Public Health:			
State Indoor Radon Grants	66.032		2,453
U.S. Department of Education:			
Iowa Department of Education:			
Rehabilitation Services - Vocational			
Rehabilitation Grants to States	84.126	03-CPSE-22	5,828
Rehabilitation Services - Vocational			
Rehabilitation Grants to States	84.126	04-CPSE-22	19,425
			25,253
U.S. Department of Health and Human Services:			
Southeast Iowa Area Agency on Aging, Inc.			
National Family Caregiver Support	93.052	IIIE Hospice Respite - 1	10,251
Iowa Department of Public Health:			
Consolidated Knowledge Development and			
Application (KD&A) Program	93.230	5883IP16	7,390
Consolidated Knowledge Development and			
Application (KD&A) Program	93.230	5884IP16	32,070
			39,460
Immunization Grants	93.268	5883I453	2,288
Immunization Grants	93.268	5884I453	4,125
			6,413
Centers for Disease Control and Prevention -			
Investigations and Technical Assistance	93.283	5883EHC7	2,159
Centers for Disease Control and Prevention -			
Investigations and Technical Assistance	93.283	5884EHC4	6,146
Centers for Disease Control and Prevention -			
Investigations and Technical Assistance	93.283	5883BT58	701

Lee County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Des Moines County Public Health:			
Centers for Disease Control and Prevention -			
Investigations and Technical Assistance	93.283	5883BT56	41,234
			<u>50,240</u>
Maternal and Child Health Services Block Grant			
to the States	93.994	5883MC05	4,668
Maternal and Child Health Services Block Grant			
to the States	93.994	5884MC05	17,730
			<u>22,398</u>
Iowa Department of Human Services:			
Human Services Administrative			
Reimbursements:			
Temporary Assistance for Needy Families	93.558		23,702
Refugee and Entrant Assistance - State			
Administered Programs	93.566		81
Child Care Mandatory and Matching Funds			
of the Child Care and Development Fund	93.596		4,355
Foster Care - Title IV-E	93.658		10,870
Adoption Assistance	93.659		2,885
Medical Assistance Program	93.778		23,859
Social Services Block Grant	93.667		15,583
Social Services Block Grant	93.667		181,903
			<u>197,486</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
State Domestic Preparedness Equipment			
Support Program	97.004		10,000
State and Local Homeland Security			
Training Program	97.005		233
Public Assistance Grants	97.036	Disaster #1367	20,155
Emergency Management Performance Grants	97.042		14,878
State and Local All Hazards Emergency			
Operations Planning	97.051		908
Total Indirect			<u>\$ 554,157</u>

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

See accompanying independent auditor's report.

Lee County



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Officials of Lee County:

We have audited the financial statements of Lee County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 5, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-B-04 and IV-J-04.

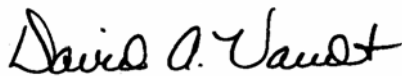
Internal Control Over Financial Reporting

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

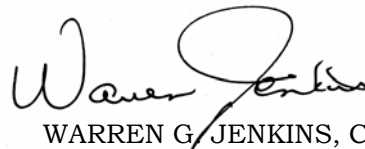
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-04 and II-H-04 are material weaknesses. Prior year reportable conditions have been resolved except for items II-A-04, II-D-04, II-E-04, II-G-04, II-H-04, II-J-04 and II-K-04.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 5, 2004

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

Lee County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Officials of Lee County:

Compliance

We have audited the compliance of Lee County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Lee County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of Lee County's management. Our responsibility is to express an opinion on Lee County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lee County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lee County's compliance with those requirements.

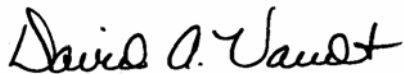
In our opinion, Lee County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

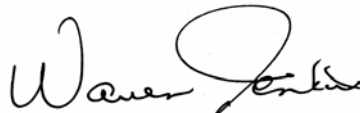
The management of Lee County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lee County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 5, 2004

Lee County
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each of the major programs.
- (f) The audit disclosed no instances of non-compliance which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were
 - CFDA Number 20.205 – Highway Planning and Construction
 - CFDA Number 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance
 - CFDA Number 93.667 – Social Services Block Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lee County did not qualify as a low-risk auditee.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – During our review of the internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. The following weaknesses in the offices identified were noted for which no compensating controls exist:

Auditor's Office – Payroll and journal entries are not reviewed by an independent person for propriety.

Treasurer's Office – All incoming mail is not opened by an employee who is not authorized to make entries to the accounting records. A listing of cash and checks received is not prepared. The mail is not forwarded to the accounting personnel for processing. The same listing is not compared to the cash receipt records. In addition, bank reconciliations are not always reviewed by an independent person.

Sheriff's Office – Generally, one individual in the Sheriff's office may have control over receipts, deposits and posting to inmate ledgers for the Commissary account. An independent person does not compare the amount deposited to the receipt records. Also, one individual prepares and records deposits and maintains the checkbook for the Forfeiture account. Bank reconciliations are not always reviewed by an independent person.

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

County Auditor Response – Assignments have been made within my department to have payroll and journal entries reviewed by an independent person.

County Treasurer Response – I will open the mail and prepare a listing of cash and checks received periodically. I will ensure bank reconciliations are reviewed by an independent person.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

County Sheriff Response – We will review our procedures to comply with the recommendation.

Conclusion – Responses accepted.

- II-B-04 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, 2004, the County did not update the listing for additions or deletions and the listing was not distributed to each department to review for accuracy.

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

Response – Due to a reduction in the Auditor’s staff and budget, and increased work load in FY2003-04, this office was no longer capable of performing this task.

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

- II-C-04 Timesheets – The Sheriff’s Office, Conservation Department and Board of Health submit employee timesheets to the County Auditor’s office for each payroll. However, the timesheets are not signed by the employee and their supervisor.

Recommendation - Timesheets should be signed by each employee and should be reviewed and signed by the employee's immediate supervisor prior to submission to the County Auditor’s office.

Response – This office will continue to work with the various departments to correct this problem.

Conclusion – Response accepted.

- II-D-04 Sheriff’s Commissary Account – Checks are occasionally signed in advance by the jailer.

Recommendation – The practice of signing checks in advance should be prohibited.

Response – The practice of signing checks in advance for the jail commissary account has been discontinued.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

II-E-04 Sheriff's Forfeiture Account – The County Sheriff maintains a forfeiture account for the collection and expenditure of forfeiture moneys. Although the activity in the account is reported semi-annually to the County Budget Director for inclusion in the County's financial activity and budget, expenditures from this account are not made by County claim and are not approved by the Board of Supervisors.

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

Response – An account has been set up with the Lee County Treasurer's office. Forfeiture collections will be transferred to that account.

Conclusion – Response accepted.

II-F-04 Public Health Department Credit Card – Certain travel expenses charged on the credit card lacked sufficient supporting documentation, including the purpose of the trip and the name of the individuals for meals charged.

Recommendation – Supporting documentation of travel expenses should include the purpose of the trip and identification of the individuals receiving meals.

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

Response – A draft policy has been developed to include who controls credit cards, who is authorized to use credit cards and for what purpose, and documentation required to substantiate charges. If meals are charged, names of individuals will be identified and purpose of the trip. The policy statement prohibits the use of county credit cards for personal expenses. Since July 1, 2004, the credit card is being used according to the draft policy. The policy will be submitted to the Board of Health for adoption in December 2004.

Conclusion – Response accepted.

II-G-04 Public Health Department Receipts – Prenumbered receipts are not issued for collections at nurse clinics. Deposits are not compared to the receipt record by an independent person. Receipts are not always deposited with the County Treasurer timely.

Recommendation – Prenumbered receipts should be issued for all collections. An independent person should compare the amount deposited to the receipt records. Receipts should be deposited with the County Treasurer timely.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Response – An initial receipt listing is being done for all checks received in the mail. Pre-numbered receipts are being issued for collections and will be issued for collections at nurse clinics starting November 29, 2004. An independent person (an office staff member who does not collect receipts) will compare the amount deposited to the receipt records. Since the return of Finance/Operations Director in November 2003, receipts are being taken to the County Treasurer’s Office for deposit in a timely manner. The Public Health Administrator has addressed with the County Treasurer the time span it takes for the Treasurer’s Office to deposit the money and issue a receipt to the Health Department for receipts received from the Health Department. A draft policy on receipts has been developed and will be submitted to the Board of Health for adoption in December 2004.

Conclusion – Response accepted.

II-H-04 Public Health Department Receivables – Accounts receivable listings were not generated at the end of each month. Also, the amounts billed for medicare, medicaid and other reimbursements were not reconciled to collections and accounts receivable.

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

Response – The Finance/Operations Director has worked on management reports with the Health Department software vendor and is generating accounts receivable listings for amounts billed to Medicare, Medicaid, private pay and private reimbursement. The Finance/Operations Director continues to work with the software vendor on reconciliation of billings. Procedures for generating accounts receivable listing and reconciliation of billings, collections and accounts receivable for other Health Department programs are being developed. A draft policy on receivables is being developed and will be submitted to the Board of Health for adoption.

Conclusion – Response accepted.

II-I-04 Conservation Department Reimbursements – The Conservation Department received grants and donations totaling \$260,250 for land acquisition. The revenue was incorrectly credited against the expenditure for land, understating revenues and expenditures. The County’s financial statements were adjusted to properly reflect the revenue and expenditure.

Recommendation – Revenues should not be netted against expenditures except for error corrections.

Response – Future grants will be accounted for as revenues and not reimbursements. The Conservation Office will work with the Auditor and Budget Director to assure this process is followed.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

II-J-04 Capital Asset Disposals – The County does not have a written policy for the disposal of capital assets.

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

Response – The Board of Health recently approved a capital asset disposal policy for the Health Department. The Lee County Board of Supervisors is reviewing this policy and is taking it into consideration as a starting point for putting one in place for the County.

Conclusion – Response accepted.

II-K-04 Credit Card Policy – The County has certain credit cards available for use by various departments. The County does not have a written policy regarding use of these credit cards.

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

Response – The Board is reviewing our overall County usage of credit cards before implementing a policy. Currently, the Board of Health has approved a credit card policy for their department and we are taking this policy under review.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-04 Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004, except as follows:

Office	Depository	Maximum Authorized Deposit
Treasurer	State Central	\$ 8,000,000
Sheriff	Lee County Bank and Trust	200,000

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

Response – At the first meeting of the Board on January 3, 2005 the following maximum deposit amounts were approved by Resolution #2005-11:

Office	Depository	Maximum Authorized Deposit
Treasurer	State Central	\$10,000,000
Sheriff	Lee County Bank and Trust	300,000

Conclusion – Response accepted.

IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.

Disbursements in the Conservation Department exceeded the amount appropriated.

Recommendation – Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by decreasing or increasing the appropriation of another office or department as long as the service area budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – Future increases or decreases will be approved by a Board resolution prior to disbursements exceeding appropriations.

Conclusion – Response accepted.

IV-C-04 Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

IV-D-04 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-E-04 Business Transactions – No business transactions between the County and County officials or employees were noted.

IV-F-04 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all coverage should be periodically reviewed to ensure the coverage is adequate for current operations.

IV-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-04 Deposits and Investments – Except as noted above, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

IV-I-04 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

IV-J-04 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the County to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The County Treasurer and Recorder retain cancelled checks through electronic image, but do not obtain an image of the back of each cancelled check as required.

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

County Treasurer Response – I will contact the banks to insure they send both front and back of each cancelled check.

County Recorder Response – We will contact the bank.

Conclusion – Responses accepted.

IV-K-04 Treasurer's Outstanding Checks – The County Treasurer did not cancel checks outstanding for more than one year as required by Chapter 331.554(6) of the Code of Iowa.

Recommendation – Checks outstanding for more that one year should be canceled as required.

Response – We will cancel checks that are outstanding for more than one year and maintain a list of said checks.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

IV-L-04 Capital Projects – The County did not publish notice to bidders for two Secondary Road projects as required by Chapter 309.40 of the Code of Iowa.

Recommendation – Notice to bidders should be published as required.

Response – These two grading projects each had a box culvert that was let prior to the grading. We did publish the notice to bidders for the box culverts, but forgot to publish the notice when we let the grading. The letting notice was published in the IDOT Letting Report, the Dodge Letting Report and the AGC Letting Report.

Conclusion – Response acknowledged. Notice to bidders should be published for future projects, as required.

IV-M-04 Board of Health Minutes – The minutes do not show information sufficient to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa. In addition, certain minutes of the meetings of the Board of Health were not signed.

Recommendation – The minutes should indicate the vote of each member and the Board should ensure minutes are signed as required.

Response – Starting with the Board of Health minutes for October 27, 2004, the minutes will indicate the vote of each member by including in the minutes “Motions are unanimous unless otherwise stated.” When motions are not unanimous, the vote of each member will be included in the minutes. Since March 2004, the Board of Health minutes have been signed as required. The Board will continue to insure that minutes are signed as required with the Administrator monitoring this monthly.

Conclusion – Response accepted.

IV-N-04 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.

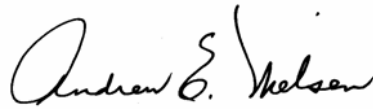
Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

Lee County

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Donna F. Kruger, CPA, Senior Auditor II
Ted M. Wiegand, CPA, Senior Auditor
Sheila M. Jensen, Staff Auditor
Jennifer R. Edgar, Assistant Auditor
Ryan M. Galles, Audit Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State