



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

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NEWS RELEASE

FOR RELEASE

March 13, 2008

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

The County had local tax revenue of \$36,647,435 for the year ended June 30, 2007, which included \$1,757,001 in tax credits from the state. The County forwarded \$26,945,878 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$9,701,557 of the local tax revenue to finance County operations, a 1.9 percent decrease from the prior year. Other revenues included charges for service of \$2,901,582, operating grants, contributions and restricted interest of \$6,917,901, capital grants, contributions and restricted interest of \$4,352,544, tax increment financing of \$393,163, local option sales tax of \$1,425,915, unrestricted investment earnings of \$333,607 and other general revenues of \$487,527.

Expenses for County operations totaled \$21,439,573, a 3.8 percent increase over the prior year. Expenses included \$5,224,835 for roads and transportation, \$4,711,655 for mental health and \$3,464,176 for public safety and legal services.

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

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LEE COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

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Lee County
Officials
(Before January 2007)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Joe Kowzan	Board of Supervisors	Jan 2007
Rick Larkin	Board of Supervisors	Jan 2007
Larry Kruse	Board of Supervisors	Jan 2009
George Morgan	Board of Supervisors	Jan 2009
Bob Woodruff	Board of Supervisors	Jan 2009
Anne M. Pedersen	County Auditor	Jan 2009
Mary Koehler	County Treasurer	Nov 2006
Janet Strunk	County Treasurer	Jan 2011
Larry J. Holtkamp	County Recorder	Jan 2007
H.D. Buck Jones	County Sheriff	Jan 2009
Michael P. Short	County Attorney	Jan 2007
Janice C. Calvert	County Assessor	Jan 2010

(After January 2007)

Larry Kruse	Board of Supervisors	Jan 2009
George Morgan	Board of Supervisors	Jan 2009
Bob Woodruff	Board of Supervisors	Jan 2009
Rick Larkin	Board of Supervisors	Jan 2011
Ernest Schiller	Board of Supervisors	Jan 2011
Anne M. Pedersen	County Auditor	Jan 2009
Janet Strunk	County Treasurer	Jan 2011
Larry J. Holtkamp	County Recorder	Jan 2011
H.D. Buck Jones	County Sheriff	Jan 2009
Michael P. Short	County Attorney	Jan 2011
Janice C. Calvert	County Assessor	Jan 2010

Lee County



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Independent Auditor's Report

To the Officials of Lee County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lee County, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Lee County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lincoln Ridge Limited Partnership, a blended component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended component unit, is based solely on the report of the other auditors.

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

The financial statements of Lee County EMS Ambulance, Inc., the County's only discretely presented component unit, have not been audited, and we were not engaged to audit the financial statements of Lee County EMS Ambulance, Inc. as part of our audit of the County's basic financial statements. As described in Note 14, the County has chosen to present condensed financial information for Lee County EMS Ambulance, Inc. Because Lee County EMS Ambulance, Inc.'s financial statements have not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the condensed financial information of the discretely presented component unit of the County as of and for the year ended December 31, 2006.

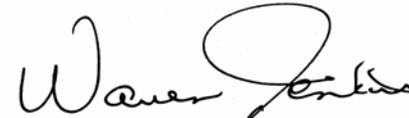
In addition, in our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lee County at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2008 on our consideration of Lee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 31, 2008

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, 2007. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at June 30, 2007 by \$39.5 million.
- Lee County's net assets increased \$5,075,000 from FY06 to FY07.
- Governmental fund revenues in FY07 decreased 3.53%, or approximately \$805,000, from FY06. Property and other county tax decreased in FY07 approximately \$20,000 from FY06. The County collected approximately \$393,000 in tax increment financing revenue. The overall tax levy rate decreased \$.45446 from \$11.80664 to \$11.35218 per \$1,000 of taxable valuation. The tax levy rate for the General Fund and Mental Health Fund decreased while the Rural Services Fund tax levy rate increased. The countywide and the rural services taxable property valuations increased by \$24.4 million and \$6.4 million, respectively.
- Governmental fund expenditures decreased by 2.0%, or approximately \$431,000, from FY06 to FY07.
- The County is in the sixth year of implementation of the Lee County Economic Development Plan. The goal of this plan is to bring much needed jobs to the County, thus employing our citizens and increasing the County's tax base. The Lee County Board of Supervisors, other than budgetary, allows this department to function with considerable autonomy.

USING THIS ANNUAL REPORT

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The County has three (3) kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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, 2007 and June 30, 2006.

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2007	2006
Current and other assets	\$ 19,530	18,955
Capital assets	32,075	28,952
Total assets	51,605	47,907
Long-term liabilities	909	1,435
Other liabilities	11,230	12,081
Total liabilities	12,139	13,516
Net assets:		
Invested in capital assets, net of related debt	31,646	28,402
Restricted	3,838	3,623
Unrestricted	3,982	2,366
Total net assets	\$ 39,466	34,391

Lee County's total net assets increased approximately \$5,075,000, or 14.76%. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. Debt related to capital assets is liquidated with resources other than capital assets. The County's improved financial position is also the product of many other factors. Comparatively, FY06 total net assets increased approximately \$5,175,000, or 17.71%, over FY05.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements – increased from approximately \$2,366,000 at June 30, 2006 to approximately \$3,982,000 at the end of this year, an increase of 68.3%.

Changes in Net Assets of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2007	2006
Revenues:		
Program revenues:		
Charges for service	\$ 2,902	3,040
Operating grants, contributions and restricted interest	6,918	6,787
Capital grants, contributions and restricted interest	4,352	2,423
General revenues:		
Property and other county tax	9,189	9,337
Tax increment financing	393	750
Penalty and interest on property tax	165	270
Gaming wager tax	72	86
State tax credits	513	554
Local option sales tax	1,426	1,422
Unrestricted investment earnings	334	203
Supplemental debt service payment for tax increment urban renewal revenue bonds	-	640
Gain on sale of capital assets	42	94
Other general revenues	208	234
Total revenues	26,514	25,840
Program expenses:		
Public safety and legal services	3,464	3,284
Physical health and social services	3,286	3,110
Mental health	4,712	4,447
County environment and education	1,568	1,689
Roads and transportation	5,225	4,830
Governmental services to residents	866	1,114
Administration	2,039	1,962
Non-program	248	106
Interest on long-term debt	31	123
Total expenses	21,439	20,665
Increase in net assets	5,075	5,175
Net assets beginning of year	34,391	29,216
Net assets end of year	\$ 39,466	34,391

For FY07, Lee County’s property tax rates decreased to \$9.32549 per \$1,000 of taxable valuation in the countywide levy and increased to \$2.02669 per \$1,000 of taxable valuation for the rural levy. The countywide taxable property valuation increased \$24,395,000 and the rural taxable property valuation increased \$6,400,000. The net effect of the increases in valuations and the changes in tax rates was a net decrease in property and other county tax revenue of approximately \$148,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Lee County completed FY07, its governmental funds reported a combined fund balance of \$6,859,871, which is more than the \$5,490,243 combined fund balance at the end of FY06.

The General Fund, the operating fund for Lee County, ended FY07 with an ending balance of \$4,701,983, compared to the prior year ending balance of \$3,351,299, an increase of \$1,350,684. Revenues decreased \$399,141, primarily due to the decrease in property tax rates and intergovernmental revenues. Expenditures had a small decrease of \$41,104.

The Mental Health Fund ended FY07 with a deficit ending balance of \$(109,894), compared to the prior year deficit ending balance of \$(471,177), an increase of \$361,283. Revenues increased \$333,960, primarily due to an increase in State MHDD Community Formula Distribution/Allowed Growth Factor funding as well as the new State Payment Program. Expenditures increased \$268,991.

The Secondary Roads Fund ended FY07 with an ending balance of \$1,282,247, compared to the prior year ending balance of \$1,786,726, a decrease of \$504,479. Revenues increased \$12,600. Expenditures increased \$276,599, primarily due to an increase in capital projects.

BUDGETARY HIGHLIGHTS

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

Over the course of the year, Lee County amended its budget once in May 2007. The amendment was made to allow for additional mental health costs associated with State cases per the County's management plan as well to allow for costs associated with the sale of the Reuther property.

The County's receipts were \$185,239 less than budgeted, a variance of .86%. Miscellaneous receipts were less than budget due primarily to not needing additional funds from Roquette Services, Inc. to make the FY07 Keokuk Flood wall tax increment urban renewal revenue bond payments.

Total disbursements were \$3,267,416 less than the amended budget, a variance of 16.46%. Actual disbursements for the physical health and social services, mental health, administration, debt service and capital projects functions were \$383,855, \$219,163, \$280,980, \$1,423,244 and \$651,160, respectively, less than budgeted. The physical health and social services shortfall was primarily due to the timing of general relief bills. The mental health shortfall was primarily due to conservatively budgeting for the new State Payment Plan. The administration shortfall was primarily due to less building repair work being done than was budgeted. The debt service shortfall was due to paying an additional payment on the Keokuk Floodwall debt in May 2006 which resulted in a lower final payment in fiscal year 2007. The capital projects shortfall was primarily due to the jail project not fully starting up until fiscal year 2008.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of FY07, the County had invested \$32 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 \$3.1 million over FY06. The most significant change to capital assets during FY07 was the increase in construction in progress for infrastructure projects.

Lee County had depreciation expense of \$1.8 million in FY07 and total accumulated depreciation of \$20.6 million at June 30, 2007. Additional information about the County's capital assets is included in Note 5 to the financial statements.

Long-Term Debt

At year-end, the County had approximately \$429,000 in long-term debt outstanding. This represents a decrease of 54% 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 \$74.6 million. Additional information about the County's long-term debt is included in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

From FY06 to FY07, the countywide and the rural services property taxable valuations increased \$24.4 million and \$6.4 million, respectively. In FY08, the countywide and the rural services property taxable valuations increased approximately \$17.5 million and \$13.4 million, respectively.

Amounts budgeted for disbursements in the FY08 operating budget are approximately \$22 million, an increase of 10.6% over the FY07 actual disbursements of \$19.9 million. The County's General Fund is expected to end FY08 with a budgeted ending cash balance of \$3.3 million, compared to the June 30, 2007 actual cash balance of \$4.6 million.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Exhibit A

Lee County
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 8,794,765
Receivables:	
Property tax:	
Delinquent	54,648
Succeeding year	9,017,000
Interest and penalty on property tax	140,573
Accounts	108,849
Accrued interest	79,759
Due from other governments	1,043,774
Inventories	289,890
Capital assets (net of accumulated depreciation)	<u>32,075,303</u>
Total assets	<u>51,604,561</u>
Liabilities	
Accounts payable	795,023
Salaries and benefits payable	129,506
Due to other governments	1,288,369
Deferred revenue:	
Succeeding year property tax	9,017,000
Long-term liabilities:	
Portion due or payable within one year:	
Bank loans	28,227
Capital lease purchase agreements	26,736
Compensated absences	267,979
Portion due or payable after one year:	
Bank loans	360,060
Capital lease purchase agreements	13,887
Compensated absences	<u>212,190</u>
Total liabilities	<u>12,138,977</u>

Lee County
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Net Assets	
Invested in capital assets, net of related debt	31,646,393
Restricted for:	
Supplemental levy purposes	836,238
Secondary roads purposes	1,239,562
Hospice care:	
Expendable	20,754
Nonexpendable	82,500
Building repair and maintenance	1,135,133
Other purposes	523,311
Unrestricted	<u>3,981,693</u>
Total net assets	<u><u>\$ 39,465,584</u></u>

See notes to financial statements.

Lee County

Lee County
 Statement of Activities
 Year ended June 30, 2007

	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	\$ 3,464,176	241,506	121,383	5,000	(3,096,287)
Physical health and social services	3,285,954	1,708,413	825,075	-	(752,466)
Mental health	4,711,655	137,581	2,670,947	-	(1,903,127)
County environment and education	1,567,859	75,895	423,032	-	(1,068,932)
Roads and transportation	5,224,835	23,183	2,838,714	4,347,544	1,984,606
Governmental services to residents	865,799	437,305	20,811	-	(407,683)
Administration	2,039,839	35,449	12,067	-	(1,992,323)
Non-program	248,060	242,250	5,872	-	62
Interest on long-term debt	31,396	-	-	-	(31,396)
Total	\$ 21,439,573	2,901,582	6,917,901	4,352,544	(7,267,546)
General Revenues:					
Property and other county tax levied for general purposes					9,188,679
Tax increment financing					393,163
Penalty and interest on property tax					165,478
Gaming wager tax					71,877
State tax credits					512,878
Local option sales tax					1,425,915
Unrestricted investment earnings					333,607
Gain on sale of capital assets					42,163
Miscellaneous					208,009
Total general revenues					12,341,769
Change in net assets					5,074,223
Net assets beginning of year					34,391,361
Net assets end of year					\$ 39,465,584

See notes to financial statements.

Lee County
Balance Sheet
Governmental Funds

June 30, 2007

	Special Revenue		
	General	Mental Health	Secondary Roads
Assets			
Cash and pooled investments:			
County Treasurer	\$ 4,596,240	1,255,362	828,854
Component units	-	-	-
Receivables:			
Property tax:			
Delinquent	37,407	12,624	-
Succeeding year	6,132,000	2,069,000	-
Interest and penalty on property tax	140,573	-	-
Accounts	69,512	25,697	436
Accrued interest	74,311	-	-
Due from other governments	506,772	979	324,155
Inventories	-	-	288,219
	\$ 11,556,815	3,363,662	1,441,664
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 197,384	188,446	44,689
Salaries and benefits payable	92,389	1,658	25,785
Due to other funds	2,594	148	31
Due to other governments	80,900	1,197,339	10,112
Deferred revenue:			
Succeeding year property tax	6,132,000	2,069,000	-
Other	349,565	16,965	78,800
Total liabilities	6,854,832	3,473,556	159,417
Fund balances:			
Reserved for:			
Inventories	-	-	288,219
Supplemental levy purposes	827,424	-	-
Debt service	-	-	-
Hospice care	-	-	-
Building repair and maintenance	1,135,133	-	-
Medicaid administrative reimbursements	13,540	-	-
Specific purposes	-	-	-
Unreserved:			
Designated for future capital projects	500,000	-	-
Undesignated, reported in:			
General fund	2,225,886	-	-
Special revenue funds	-	(109,894)	994,028
Total fund balances	4,701,983	(109,894)	1,282,247
	\$ 11,556,815	3,363,662	1,441,664

See notes to financial statements.

Nonmajor	Total
632,075	7,312,531
250,915	250,915
4,617	54,648
816,000	9,017,000
-	140,573
12,420	108,065
-	74,311
211,868	1,043,774
-	288,219
1,927,895	18,290,036
56,421	486,940
8,559	128,391
-	2,773
16	1,288,367
816,000	9,017,000
61,364	506,694
942,360	11,430,165
-	288,219
-	827,424
11,364	11,364
82,500	82,500
-	1,135,133
-	13,540
35,729	35,729
-	500,000
-	2,225,886
855,942	1,740,076
985,535	6,859,871
1,927,895	18,290,036

Lee County

Lee County

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

June 30, 2007

Total governmental fund balances (page 19) \$ 6,859,871

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 \$52,498,119 and the accumulated depreciation is \$20,449,033. 32,049,086

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 506,694

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

Capital assets of \$206,302 less accumulated depreciation of \$180,085	\$ 26,217	
Compensated absences	(2,951)	
Other net assets	932,795	956,061
	<hr/>	

Long-term liabilities, including loans payable, capital lease purchase agreements payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (906,128)

Net assets of governmental activities (page 15) \$39,465,584

See notes to financial statements.

Lee County

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

Year ended June 30, 2007

	Special Revenue		
	General	Mental Health	Secondary Roads
Revenues:			
Property and other county tax	\$ 6,800,684	2,075,839	-
Tax increment financing	-	-	-
Interest and penalty on property tax	270,733	-	-
Intergovernmental	2,860,631	2,739,225	2,837,889
Licenses and permits	54,859	-	1,115
Charges for service	862,615	-	69
Use of money and property	309,713	72,767	1,438
Miscellaneous	131,324	27,502	73,780
Total revenues	11,290,559	4,915,333	2,914,291
Expenditures:			
Operating:			
Public safety and legal services	3,063,499	-	-
Physical health and social services	3,250,765	-	-
Mental health	-	4,554,050	-
County environment and education	909,747	-	-
Roads and transportation	-	-	3,848,449
Governmental services to residents	877,098	-	-
Administration	1,912,371	-	-
Non-program	16,000	-	-
Debt service	-	-	-
Capital projects	5,700	-	597,821
Total expenditures	10,035,180	4,554,050	4,446,270
Excess (deficiency) of revenues over (under) expenditures	1,255,379	361,283	(1,531,979)
Other financing sources (uses):			
Sale of capital assets	53,583	-	7,500
Capital lease purchase agreement proceeds	41,722	-	-
Operating transfers in	-	-	1,020,000
Operating transfers out	-	-	-
Total other financing sources (uses)	95,305	-	1,027,500
Net change in fund balances	1,350,684	361,283	(504,479)
Fund balances beginning of year	3,351,299	(471,177)	1,786,726
Fund balances end of year	\$ 4,701,983	(109,894)	1,282,247

See notes to financial statements.

Nonmajor	Total
1,869,758	10,746,281
393,163	393,163
-	270,733
281,828	8,719,573
-	55,974
10,399	873,083
87,542	471,460
261,584	494,190
<u>2,904,274</u>	<u>22,024,457</u>
449,439	3,512,938
24,459	3,275,224
108,912	4,662,962
707,490	1,617,237
14,202	3,862,651
1,236	878,334
-	1,912,371
-	16,000
416,396	416,396
-	603,521
<u>1,722,134</u>	<u>20,757,634</u>
<u>1,182,140</u>	<u>1,266,823</u>
-	61,083
-	41,722
-	1,020,000
(1,020,000)	(1,020,000)
<u>(1,020,000)</u>	<u>102,805</u>
162,140	1,369,628
<u>823,395</u>	<u>5,490,243</u>
<u>985,535</u>	<u>6,859,871</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, 2007

Net change in fund balances - Total governmental funds (page 23) \$ 1,369,628

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

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

Expenditures for capital assets	\$ 633,103	
Capital assets contributed by the Iowa Department of Transportation	4,274,703	
Other capital asset contributions	5,000	
Depreciation expense	(1,752,386)	3,160,420

In the Statement of Activities, the gain on the sale of capital assets is reported, whereas the proceeds from the sale increase financial resources in the governmental funds. (18,920)

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

Property tax	2,426	
Other	(102,026)	(99,600)

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	(41,722)	
Repaid	547,637	505,915

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 the governmental funds. 20,972

The Internal Service Funds are used by management to charge the costs of various services to individual departments and funds. The change in net assets of the Internal Service Funds is reported with governmental activities. 135,808

Change in net assets of governmental activities (page 17) \$ 5,074,223

See notes to financial statements.

Lee County
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Internal Service
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,231,319
Accounts receivable	784
Accrued interest receivable	5,448
Due from other funds	2,935
Inventories	1,671
Noncurrent assets:	
Capital assets, net of accumulated depreciation	26,217
Total assets	1,268,374
Liabilities	
Current liabilities:	
Accounts payable	308,083
Salaries and benefits payable	1,115
Due to other funds	162
Due to other governments	2
Compensated absences	2,951
Total liabilities	312,313
Net Assets	
Invested in capital assets	26,217
Unrestricted	929,844
Total net assets	\$ 956,061

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, 2007

		<u>Internal Service</u>
Operating revenues:		
Reimbursements from operating funds and other governmental units		\$ 2,253,911
Reimbursements from employees and others		101,143
Miscellaneous		45
Total operating revenues		<u>2,355,099</u>
Operating expenses:		
Medical and health services	\$ 1,853,267	
Supplemental insurance	8,535	
Salaries and benefits	73,578	
Administrative fees, network access fees and stop-loss premium	172,194	
Supplies, utilities and data processing	62,074	
Maintenance agreements	18,261	
Non-capitalized equipment	30,554	
Miscellaneous	600	
Depreciation	25,185	2,244,248
Operating income		<u>110,851</u>
Non-operating revenues:		
Interest income		24,957
Net income		<u>135,808</u>
Net assets beginning of year		<u>820,253</u>
Net assets end of year		<u>\$ 956,061</u>

See notes to financial statements.

Lee County
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2007

	Internal Service
Cash flows from operating activities:	
Cash received from operating funds and other governmental units	\$ 2,257,439
Cash received from employees and others	101,672
Cash paid to suppliers for services	(2,267,713)
Net cash provided by operating activities	91,398
Cash flows from capital and related financing activities:	
Purchase of equipment	(6,842)
Cash flows from investing activities:	
Interest on investments	32,526
Net increase in cash and cash equivalents	117,082
Cash and cash equivalents beginning of year	1,114,237
Cash and cash equivalents end of year	\$ 1,231,319
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 110,851
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	25,185
Changes in assets and liabilities:	
Decrease in accounts receivable	389
Decrease in due from other funds	3,622
Decrease in inventories	1,331
(Decrease) in accounts payable and due to other governments	(50,482)
Increase in salaries and benefits payable	47
(Decrease) in due to other funds	(128)
Increase in compensated absences	583
Net cash provided by operating activities	\$ 91,398

See notes to financial statements.

Lee County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2007

Assets

Cash and pooled investments:	
County Treasurer	\$ 1,698,622
Other County officials	429,658
Receivables:	
Property tax:	
Delinquent	151,995
Succeeding year	25,201,000
Accounts	26,174
Accrued interest	358
Special assessments	125,823
Due from other governments	24,615
Total assets	<u>27,658,245</u>

Liabilities

Accounts payable	39,909
Salaries and benefits payable	5,525
Due to other governments	27,169,680
Trusts payable	424,327
Compensated absences	18,804
Total liabilities	<u>27,658,245</u>
Net assets	<u>\$ -</u>

See notes to financial statements.

Lee County

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

The Lincoln Ridge Limited Partnership is an agreement between the Great River Progressive Housing Corporation (General Partner) and Lee County Development Corporation (Limited Partner) pursuant to the provisions of the Iowa Uniform Limited Partnership Act. The Partnership is established for the sole purpose of engaging in the business of constructing, acquiring, developing, owning, renting, leasing and disposing of a residential multi-dwelling housing project of up to 16 units for hard to house persons of low income. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Lincoln Ridge Limited Partnership meets the definition of a component unit that should be blended. The partnership's financial report for the year ended December 31, 2006 was used to provide the financial activity included in this report. The financial activity of the component unit has been blended as a Special Revenue Fund of the County.

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

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

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

Discretely Presented Component Unit

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

In accordance with criteria set forth by the Governmental Accounting Standards Board, EMS meets the definition of a component unit that should be discretely presented. Condensed financial statements for the year ended December 31, 2006 presented in Note 14 were prepared on the accrual basis of accounting. Unaudited financial statements may be obtained from Lee County EMS Ambulance, Inc., 314 South Main Street, Donnellson, IA. 50265.

Jointly Governed Organizations

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both

restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property

valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2006.

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, 2007, 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 acquired after July 1, 1980 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

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

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

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

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

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

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. At June 30, 2007, the County had the following money market mutual fund investments:

Type	Fair Value
Fidelity Treasury Fund – Daily Money Class - Repurchase Agreements	\$ 103,003
U.S. Treasury Obligations	<u>206</u>
Total	<u>\$ 103,209</u>

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

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

Concentration of credit risk. The County places no limit on the amount that may be invested in any one issuer. The County's investment in the Fidelity Treasury Fund – Daily Money Class is 1.3 percent of the County's total investments.

Interest rate risk. At June 30, 2007, the effective duration of the Fidelity Treasury Fund – Daily Money Class was less than 1 month.

The Three Rivers Conservation Foundation's investments at June 30, 2007 consist of stocks and stock mutual funds with a fair value of \$79,446. Disclosure of concentration of credit risk and interest rate risk do not apply to these investments.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Internal Service: Supplies	General	\$ 2,594
	Special Revenue:	
	Mental Health	148
	Secondary Roads	31
	Internal Service:	
	Employee Health Plan Trust	10
	Information Technology	152
Total		<u>\$ 2,935</u>

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

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	Special Revenue: Rural Services	\$ 1,020,000

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 741,369	-	(85,062)	656,307
Land, road network	798,039	178,046	-	976,085
Construction in progress	-	4,627,221	(346,818)	4,280,403
Total capital assets not being depreciated	1,539,408	4,805,267	(431,880)	5,912,795
Capital assets being depreciated:				
Buildings	7,678,318	-	-	7,678,318
Improvements other than buildings	697,056	-	-	697,056
Equipment and vehicles	5,860,819	430,160	(416,613)	5,874,366
Equipment - internal service	199,460	6,842	-	206,302
Infrastructure, road network	32,166,812	168,772	-	32,335,584
Total capital assets being depreciated	46,602,465	605,774	(416,613)	46,791,626
Less accumulated depreciation for:				
Buildings	3,302,196	222,617	-	3,524,813
Improvements other than buildings	469,212	20,527	-	489,739
Equipment and vehicles	3,501,920	481,890	(338,180)	3,645,630
Equipment - internal service	154,900	25,185	-	180,085
Infrastructure, road network	11,761,499	1,027,352	-	12,788,851
Total accumulated depreciation	19,189,727	1,777,571	(338,180)	20,629,118
Total capital assets being depreciated, net	27,412,738	(1,171,797)	(78,433)	26,162,508
Governmental activities capital assets, net	\$28,952,146	3,633,470	(510,313)	32,075,303

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 54,809
Physical health and social services	15,542
Mental health	82,836
County environment and education	17,554
Roads and transportation	1,423,286
Governmental services to residents	3,870
Administration	179,674
Total depreciation expense - governmental activities	\$ 1,777,571

(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	\$ 80,900
Special Revenue:		
Mental Health	Services	1,197,339
Secondary Roads	Services	10,112
Rural Services	Services	16
		<u>1,207,467</u>
Total for governmental funds		<u>\$ 1,288,367</u>
Agency:		
County Assessor	Collections	\$ 645,343
Schools		14,927,090
Community Colleges		941,764
Corporations		9,206,767
Auto License and Use Tax		530,780
All other		917,936
		<u>27,169,680</u>
Total for agency funds		<u>\$ 27,169,680</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Tax Increment Urban Renewal Revenue Bonds	Real Estate Installment Contract	Bank Loan	Great River Progressive Housing Corporation Bank Loan	Capital Lease Purchase Agreements	Compensated Absences	Total
Balance beginning of year	\$ 385,000	38,001	83,411	331,681	96,732	500,558	1,435,383
Increases	-	-	-	-	41,722	416,776	458,498
Decreases	385,000	38,001	5,355	21,450	97,831	437,165	984,802
Balance end of year	\$ -	-	78,056	310,231	40,623	480,169	909,079
Due within one year	\$ -	-	5,645	22,582	26,736	267,979	322,942

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 were payable from the income and proceeds of the Keokuk Floodwall Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. On November 1, 1994, the County entered into an agreement with the City of Keokuk and Roquette America, Inc. which provided for supplemental payments to be made to the County in the event taxes were insufficient to service the debt. During the year ended June 30, 2007, the remaining principal of \$385,000 on these bonds was retired.

Real Estate Installment Contract

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

In August 2002, the agreement was revised. Under the revised agreement, the County will make five annual installments, including interest at a rate adjusted annually on May 31, with the final payment due May 31, 2008. During the year ended June 30, 2005, the balance on the loan increased by \$5,888 to \$89,888 due to accrued interest being capitalized. During the year ended June 30, 2007, the County paid off the remaining principal of \$38,001 and interest of \$3,135 on the loan.

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, 2007 was \$78,056.

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

<u>Year ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	5.55%	\$ 5,645	4,266	9,911
2009	5.55	5,974	3,937	9,911
2010	5.55	6,310	3,601	9,911
2011	5.55	6,666	3,246	9,912
2012	5.55	7,033	2,878	9,911
2013-2017	5.55	41,606	7,954	49,560
2018	5.55	4,822	134	4,956
Total		\$ 78,056	26,016	104,072

During the year ended June 30, 2007, the County paid principal of \$5,355 on the loan.

Great River Progressive Housing Corporation Bank Loan

On January 13, 2003, the Great River Progressive Housing Corporation (GRPHC), general partner to Lincoln Ridge Limited Partnership (LRLP), entered into a loan agreement with a bank to borrow \$400,000 for the construction of a low-income housing project for persons with mental disabilities. The loan bears interest at 5.41% per annum and requires semi-annual payments on December 15 and June 15 of \$19,555, including interest, with the final payment due on December 15, 2017. The amount of each principal and interest payment is equivalent to Lee County's payment to the GRPHC pursuant to a service agreement. During the year ended June 30, 2007, the GRPHC paid principal of \$21,450 and interest of \$17,659 on the loan. The balance owed on the loan at June 30, 2007 was \$310,231.

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
2008	5.41%	\$ 22,582	16,527	39,109
2009	5.41	23,864	15,245	39,109
2010	5.41	25,173	13,936	39,109
2011	5.41	26,553	12,556	39,109
2012	5.41	27,980	11,129	39,109
2013-2017	5.41	164,817	30,729	195,546
2018	5.41	19,262	522	19,784
Total		\$ 310,231	100,644	410,875

Capital Lease Purchase Agreements

The County has entered into capital lease purchase agreements to lease four sheriff's vehicles and a John Deere tractor with boom mower. During the year ended June 30, 2007, the County used an "out clause" to terminate the capital lease purchase agreement for the John Deere tractor with boom mower and the remaining \$70,000 due under the agreement by taking the equipment back to the original dealer.

The following is a schedule of the future minimum lease payments, including interest at rates ranging from 5.65% to 6.80% per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2007:

Year ending June 30,	Sheriff's Vehicles
2008	\$ 29,341
2009	14,832
Total minimum lease payments	44,173
Less amount representing interest	(3,550)
Present value of net minimum lease payments	\$ 40,623

The book value of assets acquired under capital leases totaled \$82,963. Payments under capital lease purchase agreements for the year ended June 30, 2007 totaled \$27,831.

(8) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$348,881, \$361,923 and \$340,578, respectively, equal to the required contributions for each year.

(9) Contingent Liabilities

Solid Waste Disposal Bonds

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

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

During the year ended June 30, 2007, the remaining balance of this contingent liability was retired.

(10) Endowment

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

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

(11) Risk Management

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

(12) Deficit Fund Balance

The Special Revenue, Mental Health Fund had a deficit fund balance of (\$109,894) at June 30, 2007. The deficit will be eliminated through working with the Iowa Department of Human Services for ways to lower costs and improve efficiency.

(13) Employee Health Insurance Plan

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

Monthly payments of service fees and plan contributions to the Employee Health Plan Trust Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark from the Employee Health Plan Trust Fund. The County's contribution for the year ended June 30, 2007 was \$2,034,687.

Amounts payable from the Employee Health Plan Trust Fund at June 30, 2007 total \$300,597, 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 \$572,711 at June 30, 2007 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, 2006	\$	352,416
Incurred claims (including claims incurred but not reported as of June 30, 2007)		1,801,448
Payments on claims during the fiscal year		1,853,267
Unpaid claims at June 30, 2007	\$	<u>300,597</u>

(14) Lee County EMS Ambulance, Inc.

Lee County EMS Ambulance, Inc. (EMS) provides ambulance service for Lee County. EMS reports its financial activity using a calendar year end. As permitted by GASB Statement No. 34, the County has opted to present condensed financial information for its discretely presented component unit. Following is the unaudited condensed financial information for EMS for the year ended December 31, 2006.

Condensed Statement of Net Assets	
December 31, 2006	
(Unaudited)	
Assets	
Current assets:	
Capital assets, net of accumulated depreciation	\$ 195,200
Other	428,632
Total assets	623,832
Liabilities	
Long-term liabilities	61,311
Other	197,777
Total liabilities	259,088
Net assets:	
Invested in capital assets, net of related debt	71,578
Unrestricted	293,166
Total net assets	\$ 364,744

Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets	
Year ended December 31, 2006	
(Unaudited)	
Operating revenues:	
Patient income	\$ 1,192,580
County subsidy	390,000
Other	291
Total operating revenues	1,582,871
Operating expenses:	
Salaries and benefits	\$ 1,060,906
Insurance	203,303
Other	367,006
Operating loss	(48,344)
Non-operating revenues (expenses):	
Interest income	15,103
Interest expense	(8,912)
Total non-operating revenues (expenses)	6,191
Net loss	(42,153)
Net assets beginning of year	406,897
Net assets end of year	\$ 364,744

(15) Subsequent Events

On August 21, 2007, the voters in Lee County approved the issuance of general obligation bonds in an amount not exceeding \$5,400,000 for the purpose of constructing, furnishing and equipping an addition to and renovating portions of the existing County jail, including an area for centralized dispatch.

On September 18, 2007, the County approved the issuance of \$3,900,000 of general obligation solid waste disposal bonds, Series 2007. The bonds are to provide for the purpose of paying Lee County's share of the cost of construction of works and facilities necessary to expand the Great River Regional Waste Authority landfill to provide an additional fifteen years of available permitted and approved landfill for disposal of Lee County solid waste. The proceeds of this issuance will be remitted to the Great River Regional Waste Authority, a jointly governed organization in which the County is a participant.

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, 2007

	Actual	Less Funds not Required to be Budgeted	Net
Receipts:			
Property and other county tax	\$ 11,148,340	-	11,148,340
Interest and penalty on property tax	270,733	-	270,733
Intergovernmental	8,741,086	214,109	8,526,977
Licenses and permits	58,837	-	58,837
Charges for service	866,145	-	866,145
Use of money and property	433,415	68,611	364,804
Miscellaneous	484,291	211,134	273,157
Total receipts	<u>22,002,847</u>	<u>493,854</u>	<u>21,508,993</u>
Disbursements:			
Public safety and legal services	3,459,506	-	3,459,506
Physical health and social services	3,315,134	-	3,315,134
Mental health	4,370,769	76,388	4,294,381
County environment and education	1,670,713	362,698	1,308,015
Roads and transportation	3,658,119	-	3,658,119
Governmental services to residents	877,159	-	877,159
Administration	1,906,465	-	1,906,465
Debt service	416,396	-	416,396
Capital projects	618,840	-	618,840
Total disbursements	<u>20,293,101</u>	<u>439,086</u>	<u>19,854,015</u>
Excess (deficiency) of receipts over (under) disbursements	1,709,746	54,768	1,654,978
Other financing sources, net	61,083	-	61,083
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,770,829	54,768	1,716,061
Balance beginning of year	5,792,617	196,147	5,596,470
Balance end of year	<u>\$ 7,563,446</u>	<u>250,915</u>	<u>7,312,531</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
11,336,441	11,336,441	(188,101)
117,000	117,000	153,733
8,224,670	8,374,670	152,307
77,300	77,300	(18,463)
841,625	841,625	24,520
225,725	225,725	139,079
721,471	721,471	(448,314)
21,544,232	21,694,232	(185,239)
3,484,240	3,504,240	44,734
3,698,989	3,698,989	383,855
4,313,544	4,513,544	219,163
1,273,781	1,330,881	22,866
3,754,607	3,776,428	118,309
1,000,264	1,000,264	123,105
2,137,445	2,187,445	280,980
1,839,640	1,839,640	1,423,244
1,270,000	1,270,000	651,160
22,772,510	23,121,431	3,267,416
(1,228,278)	(1,427,199)	3,082,177
-	58,000	(3,083)
(1,228,278)	(1,369,199)	3,085,260
4,821,389	4,821,389	775,081
3,593,111	3,452,190	3,860,341

Lee County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 22,002,847	21,610	22,024,457
Expenditures	20,293,101	464,533	20,757,634
Net	1,709,746	(442,923)	1,266,823
Other financing sources, net	61,083	41,722	102,805
Beginning fund balances	5,792,617	(302,374)	5,490,243
Ending fund balances	\$ 7,563,446	(703,575)	6,859,871

See accompanying independent auditor's report.

Lee County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Debt Service 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 \$348,921. 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, 2007, disbursements did not exceed the amounts budgeted.

Lee County

Other Supplementary Information

Lee County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007

	Rural Services	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff Reserves	Great River Progressive Housing Corp	Lincoln Ridge Limited Partnership
Assets						
Cash and pooled investments						
County Treasurer	\$ 211,481	3,373	49,292	3,843	-	-
Component units	-	-	-	-	31	71,778
Receivables:						
Property tax:						
Delinquent	4,617	-	-	-	-	-
Succeeding year	816,000	-	-	-	-	-
Accounts	67	-	-	-	-	12,353
Due from other governments	211,868	-	-	-	-	-
Total assets	\$ 1,244,033	3,373	49,292	3,843	31	84,131
Liabilities and Fund Equity						
Liabilities:						
Accounts payable	\$ 116	-	-	2,153	-	48,152
Salaries and benefits payable	5,391	-	-	-	-	-
Due to other governments	16	-	-	-	-	-
Deferred revenue:						
Succeeding year property tax	816,000	-	-	-	-	-
Other	61,364	-	-	-	-	-
Total liabilities	882,887	-	-	2,153	-	48,152
Fund equity:						
Fund balances:						
Reserved for:						
Debt service	-	-	-	-	-	-
Hospice care	-	-	-	-	-	-
Specific purposes	-	-	-	-	-	35,729
Unreserved:						
Undesignated	361,146	3,373	49,292	1,690	31	250
Total fund equity	361,146	3,373	49,292	1,690	31	35,979
Total liabilities and fund equity	\$ 1,244,033	3,373	49,292	3,843	31	84,131

See accompanying independent auditor's report.

Special Revenue										
Lee County Economic Development Group	Three Rivers Conservation Foundation	Friends of Public Health	Sheriff's Forfeiture	Electronic Transaction	Conservation Land Acquisition	Memorial Trust	Neff Memorial	Debt Service	Permanent Neff Memorial	Total
-	-	-	6,605	4	19,710	223,149	20,754	11,364	82,500	632,075
44,759	115,484	18,863	-	-	-	-	-	-	-	250,915
-	-	-	-	-	-	-	-	-	-	4,617
-	-	-	-	-	-	-	-	-	-	816,000
-	-	-	-	-	-	-	-	-	-	12,420
-	-	-	-	-	-	-	-	-	-	211,868
44,759	115,484	18,863	6,605	4	19,710	223,149	20,754	11,364	82,500	1,927,895
6,000	-	-	-	-	-	-	-	-	-	56,421
3,168	-	-	-	-	-	-	-	-	-	8,559
-	-	-	-	-	-	-	-	-	-	16
-	-	-	-	-	-	-	-	-	-	816,000
-	-	-	-	-	-	-	-	-	-	61,364
9,168	-	-	-	-	-	-	-	-	-	942,360
-	-	-	-	-	-	-	-	11,364	-	11,364
-	-	-	-	-	-	-	-	-	82,500	82,500
-	-	-	-	-	-	-	-	-	-	35,729
35,591	115,484	18,863	6,605	4	19,710	223,149	20,754	-	-	855,942
35,591	115,484	18,863	6,605	4	19,710	223,149	20,754	11,364	82,500	985,535
44,759	115,484	18,863	6,605	4	19,710	223,149	20,754	11,364	82,500	1,927,895

Lee County

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

Year ended June 30, 2007

	Rural Services	Resource Enhancement and Protection	County Recorder's Records Management	Sheriff Reserves	Great River Progressive Housing Corp	Lincoln Ridge Limited Partnership	Lee County Economic Development Group
Revenues:							
Property and other county tax	\$ 1,869,758	-	-	-	-	-	-
Tax increment financing	-	-	-	-	-	-	-
Intergovernmental	47,908	19,811	-	-	39,109	-	175,000
Charges for service	-	-	6,204	-	-	-	-
Use of money and property	-	258	1,114	-	-	64,814	427
Miscellaneous	67	-	-	2,667	-	4,756	129,554
Total revenues	1,917,733	20,069	7,318	2,667	39,109	69,570	304,981
Expenditures:							
Operating:							
Public safety and legal services	445,332	-	-	3,659	-	-	-
Physical health and social services	-	-	-	-	-	-	-
Mental health	-	-	-	-	39,109	69,803	-
County environment and education	350,358	23,711	-	-	-	-	294,762
Roads and transportation	14,202	-	-	-	-	-	-
Governmental services to residents	1,236	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	811,128	23,711	-	3,659	39,109	69,803	294,762
Excess (deficiency) of revenues over (under) expenditures	1,106,605	(3,642)	7,318	(992)	-	(233)	10,219
Other financing uses:							
Operating transfers out	(1,020,000)	-	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	86,605	(3,642)	7,318	(992)	-	(233)	10,219
Fund balances beginning of year	274,541	7,015	41,974	2,682	31	36,212	25,372
Fund balances end of year	\$ 361,146	3,373	49,292	1,690	31	35,979	35,591

See accompanying independent auditor's report.

Special Revenue										
Three Rivers Conservation Foundation	Friends of Public Health	Sheriffs Forfeiture	Electronic Transaction	Keokuk Floodwall	Conservation Land Acquisition	Memorial Trust	Neff Memorial	Debt Service	Permanent Neff Memorial	Total
-	-	-	-	-	-	-	-	-	-	1,869,758
-	-	-	-	393,163	-	-	-	-	-	393,163
-	-	-	-	-	-	-	-	-	-	281,828
-	-	-	-	-	4,195	-	-	-	-	10,399
11,103	475	-	-	1,446	443	5,162	2,022	278	-	87,542
77,820	-	7,053	-	-	100	39,567	-	-	-	261,584
88,923	475	7,053	-	394,609	4,738	44,729	2,022	278	-	2,904,274
-	-	448	-	-	-	-	-	-	-	449,439
-	-	-	-	-	-	24,459	-	-	-	24,459
-	-	-	-	-	-	-	-	-	-	108,912
38,659	-	-	-	-	-	-	-	-	-	707,490
-	-	-	-	-	-	-	-	-	-	14,202
-	-	-	-	-	-	-	-	-	-	1,236
-	-	-	-	416,396	-	-	-	-	-	416,396
38,659	-	448	-	416,396	-	24,459	-	-	-	1,722,134
50,264	475	6,605	-	(21,787)	4,738	20,270	2,022	278	-	1,182,140
-	-	-	-	-	-	-	-	-	-	(1,020,000)
50,264	475	6,605	-	(21,787)	4,738	20,270	2,022	278	-	162,140
65,220	18,388	-	4	21,787	14,972	202,879	18,732	11,086	82,500	823,395
115,484	18,863	6,605	4	-	19,710	223,149	20,754	11,364	82,500	985,535

Schedule 3

Lee County
Combining Schedule of Net Assets
Internal Service Funds

June 30, 2007

	Employee			
	Supplies	Health Plan Trust	Information Technology	Total
Assets				
Current assets:				
Cash and pooled investments	\$ 22,069	867,181	342,069	1,231,319
Accounts receivable	95	689	-	784
Accrued interest receivable	-	5,448	-	5,448
Due from other funds	2,935	-	-	2,935
Inventories	1,671	-	-	1,671
Noncurrent assets:				
Capital assets, net of accumulated depreciation	-	-	26,217	26,217
Total assets	26,770	873,318	368,286	1,268,374
Liabilities				
Current liabilities:				
Accounts payable	144	300,597	7,342	308,083
Salaries and benefits payable	-	-	1,115	1,115
Due to other funds	-	10	152	162
Due to other governments	-	-	2	2
Compensated absences	-	-	2,951	2,951
Total liabilities	144	300,607	11,562	312,313
Net Assets				
Invested in capital assets	-	-	26,217	26,217
Unrestricted	26,626	572,711	330,507	929,844
Total net assets	\$ 26,626	572,711	356,724	956,061

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, 2007

	Supplies	Employee Health Plan Trust	Information Technology	Total
Operating revenues:				
Reimbursements from operating funds and other governmental units	\$ 39,562	2,034,687	179,662	2,253,911
Reimbursements from employees and others	-	100,926	217	101,143
Miscellaneous	-	-	45	45
Total operating revenues	39,562	2,135,613	179,924	2,355,099
Operating expenses:				
Medical and health services	-	1,853,267	-	1,853,267
Supplemental insurance	-	8,535	-	8,535
Salaries and benefits	-	-	73,578	73,578
Administrative fees, network access fees and stop-loss premium	-	172,194	-	172,194
Supplies, utilities and data processing	43,338	1,554	17,182	62,074
Maintenance agreements	-	-	18,261	18,261
Non-capitalized equipment	-	-	30,554	30,554
Miscellaneous	-	600	-	600
Depreciation	-	-	25,185	25,185
Total operating expenses	43,338	2,036,150	164,760	2,244,248
Operating income (loss)	(3,776)	99,463	15,164	110,851
Non-operating revenues:				
Interest income	-	24,957	-	24,957
Net income	(3,776)	124,420	15,164	135,808
Net assets beginning of year	30,402	448,291	341,560	820,253
Net assets end of year	\$ 26,626	572,711	356,724	956,061

See accompanying independent auditor's report.

Lee County

Lee County
Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2007

	Supplies	Employee Health Plan Trust	Information Technology	Total
Cash flows from operating activities:				
Cash received from operating funds and other governmental units	\$ 43,090	2,034,687	179,662	2,257,439
Cash received from employees and others	-	101,410	262	101,672
Cash paid to suppliers for services	(47,164)	(2,088,093)	(132,456)	(2,267,713)
Net cash provided (used) by operating activities	(4,074)	48,004	47,468	91,398
Cash flows from capital and related financing activities:				
Purchase of equipment	-	-	(6,842)	(6,842)
Cash flows from investing activities:				
Interest on investments	-	32,526	-	32,526
Net increase (decrease) in cash and cash equivalents	(4,074)	80,530	40,626	117,082
Cash and cash equivalents beginning of year	26,143	786,651	301,443	1,114,237
Cash and cash equivalents end of year	\$ 22,069	867,181	342,069	1,231,319
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (3,776)	99,463	15,164	110,851
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	25,185	25,185
Changes in assets and liabilities:				
(Increase) decrease in accounts	(95)	484	-	389
Decrease in due from other funds	3,622	-	-	3,622
Decrease in inventories	1,331	-	-	1,331
Increase (decrease) in accounts payable and due to other governments	(5,156)	(51,819)	6,493	(50,482)
Increase in salaries and benefits payable	-	-	47	47
(Decrease) in due to other funds	-	(124)	(4)	(128)
Increase in compensated absences	-	-	583	583
Net cash provided (used) by operating activities	\$ (4,074)	48,004	47,468	91,398

See accompanying independent auditor's report.

Lee County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2007

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Solid Waste Debt Service
Assets					
Cash and pooled investments:					
County Treasurer	\$ -	4,338	257,863	33,601	5,822
Other County officials	205,883	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	1,133	2,493	-	-
Succeeding year	-	186,000	409,000	-	-
Accounts	2,086	-	53	-	-
Accrued interest	358	-	-	-	-
Special assessments	-	-	-	41,057	-
Due from other governments	-	-	-	-	-
Total assets	\$ 208,327	191,471	669,409	74,658	5,822
Liabilities					
Accounts payable	\$ -	-	332	24,922	-
Salaries and benefits payable	-	-	4,930	-	-
Due to other governments	42,852	191,471	645,343	49,736	5,822
Trusts payable	165,475	-	-	-	-
Compensated absences	-	-	18,804	-	-
Total liabilities	\$ 208,327	191,471	669,409	74,658	5,822

See accompanying independent auditor's report.

Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
359,165	21,219	221,568	4,195	530,780	161	-	259,910	1,698,622
-	-	-	-	-	-	223,775	-	429,658
89,925	5,545	51,199	1,677	-	-	-	23	151,995
14,478,000	915,000	8,934,000	275,000	-	-	-	4,000	25,201,000
-	-	-	-	-	-	-	24,035	26,174
-	-	-	-	-	-	-	-	358
-	-	-	-	-	-	-	84,766	125,823
-	-	-	-	-	-	-	24,615	24,615
14,927,090	941,764	9,206,767	280,872	530,780	161	223,775	397,349	27,658,245
-	-	-	-	-	-	-	14,655	39,909
-	-	-	-	-	-	-	595	5,525
14,927,090	941,764	9,206,767	280,872	530,780	161	-	347,022	27,169,680
-	-	-	-	-	-	223,775	35,077	424,327
-	-	-	-	-	-	-	-	18,804
14,927,090	941,764	9,206,767	280,872	530,780	161	223,775	397,349	27,658,245

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

Year ended June 30, 2007

	County Offices	Agricultural Extension Education	County Assessor	Drainage Districts	Solid Waste Debt Service
Assets and Liabilities					
Balances beginning of year	\$ 184,565	186,342	671,859	57,440	6,822
Additions:					
Property and other county tax	-	186,295	411,057	-	-
E911 surcharges	-	-	-	-	-
State tax credits	-	10,051	20,062	-	-
Drivers license fees	-	-	-	-	-
Office fees and collections	855,734	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	95,929	-
Trusts	956,869	-	-	-	-
Miscellaneous	-	-	792	56,110	894,550
Total additions	<u>1,812,603</u>	<u>196,346</u>	<u>431,911</u>	<u>152,039</u>	<u>894,550</u>
Deductions:					
Agency remittances:					
To other funds	549,607	-	-	-	-
To other governments	292,498	191,217	434,361	134,821	895,550
Trusts paid out	946,736	-	-	-	-
Total deductions	<u>1,788,841</u>	<u>191,217</u>	<u>434,361</u>	<u>134,821</u>	<u>895,550</u>
Balances end of year	<u>\$ 208,327</u>	<u>191,471</u>	<u>669,409</u>	<u>74,658</u>	<u>5,822</u>

See accompanying independent auditor's report.

Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Drivers License Trust	Payee Accounts	Other	Total
14,530,149	918,465	8,152,450	272,115	587,350	-	126,421	406,009	26,099,987
14,668,311	918,248	9,252,408	262,172	-	-	-	3,264	25,701,755
-	-	-	-	-	-	-	146,510	146,510
777,952	49,066	370,497	16,214	-	-	-	281	1,244,123
-	-	-	-	-	51,599	-	-	51,599
-	-	-	-	-	-	-	6,202	861,936
-	-	-	-	6,886,228	-	-	-	6,886,228
-	-	-	-	-	-	-	54,338	150,267
-	-	-	-	-	-	964,330	741,489	2,662,688
-	-	-	-	-	-	-	128,651	1,080,103
15,446,263	967,314	9,622,905	278,386	6,886,228	51,599	964,330	1,080,735	38,785,209
-	-	-	-	257,231	35,301	-	-	842,139
15,049,322	944,015	8,568,588	269,629	6,685,567	16,137	-	257,692	33,739,397
-	-	-	-	-	-	866,976	831,703	2,645,415
15,049,322	944,015	8,568,588	269,629	6,942,798	51,438	866,976	1,089,395	37,226,951
14,927,090	941,764	9,206,767	280,872	530,780	161	223,775	397,349	27,658,245

Lee County

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

For the Last Eight Years

	2007	2006	2005	Modified 2004
Revenues:				
Property and other county tax	\$ 10,746,281	10,766,774	8,052,382	8,750,034
Tax increment financing	393,163	750,066	693,545	-
Interest and penalty on property tax	270,733	136,627	119,478	135,959
Intergovernmental	8,719,573	8,732,583	7,459,664	7,962,245
Licenses and permits	55,974	62,265	53,283	61,716
Charges for service	873,083	892,849	822,513	855,211
Use of money and property	471,460	364,782	298,128	279,467
Miscellaneous	494,190	1,123,788	1,962,381	1,987,823
Total	\$ 22,024,457	22,829,734	19,461,374	20,032,455
Expenditures:				
Operating:				
Public safety and legal services	\$ 3,512,938	3,332,940	3,105,607	3,049,182
Physical health and social services	3,275,224	3,134,004	3,385,130	3,514,564
Mental health	4,662,962	4,396,349	4,741,619	4,070,197
County environment and education	1,617,237	1,675,269	1,625,156	1,608,790
Roads and transportation	3,862,651	3,928,318	3,897,439	3,578,306
Governmental services to residents	878,334	1,144,205	902,033	853,197
Administration	1,912,371	1,842,355	1,816,882	1,695,306
Non-program	16,000	-	-	-
Debt service	416,396	1,373,528	2,461,854	1,438,510
Capital projects	603,521	361,224	591,036	611,245
Total	\$ 20,757,634	21,188,192	22,526,756	20,419,297

See accompanying independent auditor's report.

Accrual Basis			
2003	2002	2001	2000
8,642,457	8,433,268	7,983,602	7,464,452
-	-	573,982	579,791
139,706	150,239	123,622	110,114
8,783,384	8,261,606	7,525,424	7,127,774
77,062	71,271	91,232	105,994
768,099	880,739	802,788	771,701
258,595	388,840	588,654	575,235
2,588,161	1,673,160	1,457,648	1,778,115
21,257,464	19,859,123	19,146,952	18,513,176
2,773,197	2,722,325	2,531,644	2,510,998
3,767,970	3,630,793	3,426,169	3,044,325
5,825,118	4,734,145	4,099,546	4,280,737
1,219,746	1,072,142	897,378	824,012
3,441,171	3,576,503	3,225,883	3,071,800
812,745	788,302	743,819	650,298
2,263,147	2,051,982	2,306,705	2,464,100
-	-	100,000	-
1,428,737	1,427,498	1,577,169	1,547,987
770,797	275,207	577,356	138,207
22,302,628	20,278,897	19,485,669	18,532,464

Schedule 9

Lee County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

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		\$ 19,138
Iowa Department of Public Health:			
State Administrative Matching Grants for Food Stamp Program	10.561		2,297
			21,435
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	07-WS-038	16,000
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS-C056(55)--8J-56	72,841
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 06-04 Task 25	1,206
State and Community Highway Safety	20.600	PAP 07-04 Task 25	3,952
			5,158
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	PAP 06-163 Task 43	9,743
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	PAP 07-163 Task 38	1,006
			10,749
U.S. Election Assistance Commission:			
Iowa Secretary of State:			
Help America Vote Act Requirements Payments	90.401	06-HAVA-56-SA1	5,555
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		300
Immunization Grants	93.268	5886I453	3,027
Immunization Grants	93.268	5887I453	4,307
			7,334
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5886EHC5	2,704
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5887EHC5	9,558
Des Moines County Public Health:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5887HWG16	34,264
			46,526

Lee County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2007

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Maternal and Child Health Services Block Grant to the States	93.994	5886MH15	30,149
Maternal and Child Health Services Block Grant to the States	93.994	5887MH15	24,971
Maternal and Child Health Services Block Grant to the States	93.994	5886DH06	13,340
			<u>68,460</u>
Iowa Department of Elder Affairs:			
Southeast Iowa Area Agency on Aging, Inc: National Family Caregiver Support	93.052	IIIE OOA Funds	6,028
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families Refugee and Entrant Assistance - State Administered Programs	93.558		25,826
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.566		46
Foster Care - Title IV-E	93.596		5,729
Adoption Assistance	93.658		14,137
State Children's Insurance Program	93.659		2,886
Medical Assistance Program	93.767		164
Social Services Block Grant	93.778		33,633
Social Services Block Grant	93.667		16,976
Social Services Block Grant	93.667		179,952
			<u>196,928</u>
Iowa Secretary of State:			
Voting Access for Individuals with Disabilities - Grants to States	93.617		2,017
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Homeland Security Grant Program	97.004		2,925
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017		34,687
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		7,259
Emergency Management Performance Grants	97.042		15,148
Total Indirect			<u>\$ 601,771</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

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

To the Officials of Lee County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lee County, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated January 31, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lee County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Lee County's financial statements that is more than inconsequential will not be prevented or detected by Lee County's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Lee County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-07 and II-G-07 are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 31, 2008

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

Lee County



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

To the Officials of Lee County:

Compliance

We have audited the compliance of Lee County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Lee County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Lee County's management. Our responsibility is to express an opinion on Lee County's compliance based on our audit.

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

In our opinion, Lee County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

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

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


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 31, 2008

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies 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 significant deficiencies in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each of the major programs.
- (f) The audit disclosed no instances of non-compliance which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - CFDA Number 20.205 – Highway Planning and Construction
 - CFDA Number 93.667 – Social Services Block Grant.
 - CFDA Number 93.994 – Maternal and Child Health Services Block Grant to the States.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lee County did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties – During our review of the internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. The following weaknesses in the offices identified were noted for which no compensating controls exist:

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

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

Recorder's Office – The individual who prepares monthly bank reconciliations for North Lee is, at times, responsible for handling and recording receipts. This individual also prepares and signs checks. 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. Bank reconciliations are not always reviewed by an independent person. Also, an initial listing of receipts is not prepared by an independent person, at least on a test basis.

Conservation Department – Generally, one individual in the Conservation Department opens the mail, records the receipts and prepares the deposit. In addition, an initial list of receipts is not prepared by an independent person and reconciled to the deposit.

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 – This office has reinstated the payroll review procedure.

County Treasurer Response – There will be two people going over the summary of delinquent taxes and the year end reconciliation of delinquent taxes. There will also be two people going over the recordkeeping and investments.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

County Recorder Response – I am working on ways to establish a review process with existing personnel in the Fort Madison office. The review process currently is in place in the Keokuk office. I will be more diligent in initialing reviews of those records.

County Sheriff Response – The Chief Deputy Sheriff or myself will periodically compare receipts, deposits and ledgers of the inmates commissary accounts. Also we now have a new computer system that can be checked from either the Chief Deputy's office or my office.

Conservation Department Response – The Conservation Department will have the Administrative Assistant open and record the receipts, initialing the receipts and the Director will review the receipts and deposit the receipts with the Treasurer. The deposited amounts will then be initialed and dated by the Administrative Assistant as a double check on the process.

Conclusions – Responses accepted.

II-B-07 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, 2007, 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 – An inventory update will be completed in the coming year. It is anticipated it will take one year to finish the task.

Conclusion – Response accepted.

II-C-07 County Recorder – The Recorder's Office does not prepare a year-to-date spreadsheet of receipts and disbursements reconciled to the beginning and ending book balances.

Recommendation – The Recorder's Office should prepare a year-to-date spreadsheet of receipts and disbursements which should reconcile the beginning and ending balances.

Response – I will prepare the spreadsheet when I have time.

Conclusion – Response acknowledged. The Recorder's Office should prepare a year-to-date spreadsheet of receipts and disbursements.

II-D-07 County Sheriff – The Sheriff's Office does not prepare a year-to-date spreadsheet of receipts and disbursements reconciled to the beginning and ending book balances. Also, the commissary activity and inmate balances are not reconciled to the commissary bank account balance monthly. In addition, commissary profits are not deposited with the County Treasurer regularly, as indicated by the commissary bank account balance more than doubling since June 30, 2005.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Recommendation – The Sheriff’s Office should prepare a year-to-date spreadsheet of receipts and disbursements which should reconcile the beginning and ending balances. Commissary activity and inmate balances should be reconciled to the commissary bank account balance monthly and any commissary profits should be remitted to the County Treasurer timely.

Response – The Chief Deputy or myself will periodically compare receipts and disbursements. As stated above we now have a new computer program which has the ability to prepare a year-to-date spread sheet of receipts and disbursements.

Conclusion – Response acknowledged. However, the inmate balances should be reconciled to the commissary bank account balance each month and any commissary profits should be remitted to the County Treasurer timely.

II-E-07 Capital Asset Policy – The County does not have a written capital asset policy which includes procedures for the disposal of capital assets.

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

Response – We do have a reasonably functioning policy which has never been committed to writing. There are many factors to consider along with the policy, such as procedures and the related forms necessary to facilitate the process. We will accomplish this by June 30, 2008.

Conclusion – Response accepted.

II-F-07 Credit Card Policy – The County’s written credit card policy does not require the Board’s approval of a credit card application. Also, the policy does not include store lines of credit.

Recommendation – The Board should revise the written policy to require an application for a credit card be pre-approved by the Board and the policy should also be extended to cover store lines of credit.

Response – The Credit Card Policy was revised and approved on November 13, 2007.

Conclusion – Response accepted.

II-G-07 Financial Reporting – During the audit, we identified material amounts of capital asset additions not recorded in the County’s financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Recommendation – The County should implement procedures to ensure all capital asset additions are identified and included in the County’s financial statements.

Response – The County will implement a procedure to ensure all capital asset additions are identified and included in the County’s financial statements.

Conclusion – Response accepted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

II-H-07 Protective Payee Operations – Lee County has been designated “protective payee” by the Social Security Administration, the Iowa Department of Human Services and/or the courts for approximately 120 clients who need assistance in managing their day to day finances. Several protective payee accounts were not included on the activity summary spreadsheet and several beginning balances did not match prior year ending balances. Checks written from payee accounts are prepared, approved and signed by the same person. Also, the checkbook register could not be located for certain accounts and supporting documentation could not be found for one disbursement.

Recommendation – The County should develop procedures to ensure all payee accounts are included on the activity summary spreadsheet and beginning balances match prior year ending balances. Checks should not be signed by the same person who prepared them. Check registers should be kept on hand and support should be maintained for disbursements.

Response – Immediately after being advised about inconsistencies in the year end balances from the previous year being identified as the beginning year balances, an electronic spreadsheet was developed. All involved in the provision of payee services discussed/implemented this documentation process and have it saved in their secured server area. In the coming year, Lee County will implement the use of a representative payee management system (software). This will assist in managing funds more effectively and efficiently. Registers will be maintained electronically and backed up on a daily basis to ensure accessibility. It will also manage reconciliations which will reduce the probability of human error.

In regards to checks being signed by the same person that prepares them, this is an ongoing issue and not an achievable business process because of the limited number of individuals involved in providing payee services and geographical location of those individuals. There have been processes implemented so to ensure propriety in management. The first process is that another individual than the preparer handles deposits to individual accounts. There is a running log with individual’s signatures for receipt of checks. Reconciliation sheets are reviewed and signed off on by persons other than the preparers. Additionally, there is administrative sign off for monthly reconciliations/claims processing method. And finally, the front and back of all checks are included with the bank statements to ensure proper procedure and accountability.

Lastly, there is the issue of maintaining receipts for disbursements or consumer expenditures. Every effort is made to collect documentation of purchases and to file these documents appropriately; however, consumer cooperation, ability, foresight, and organizational skills have great impact on this process. Lee County will continue to reiterate proper procedures to consumers and to the best of our ability and control meet expectations of the various systems in which we work.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

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

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.
- IV-B-07 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-C-07 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- IV-D-07 Business Transactions – No business transactions between the County and County officials or employees were noted.
- IV-E-07 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be periodically reviewed to ensure the coverage is adequate for current operations.
- IV-F-07 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

Although minutes of Board proceedings were published, certain minutes were not published within the time period required by Chapter 349.18 of the Code of Iowa.

Recommendation – The County should ensure the minutes are published as required.

Response – The Board holds a regular meeting on a weekly basis. Each week the minutes are approved by motion for the previous week. Immediately following the Board meeting, the minutes are emailed to the newspaper for publication. When the Board holds weekly meetings, this office meets the requirements of Chapter 349.18 of the Code of Iowa. There are weeks the Board does not hold a regular meeting and therefore the minutes are not approved for two weeks. On these occasions, this office is unable to furnish a copy of the proceedings to be published, within one week following the adjournment of the Board.

Conclusion – Response acknowledged. The County should ensure minutes are published as requested.

- IV-G-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County’s investment policy were noted.
- IV-H-07 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- IV-I-07 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.

Lee County

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Disbursements during the year ended June 30, 2007 for the County Extension Office did not exceed the amount budgeted.

IV-J-07 Financial Condition – The Special Revenue, Mental Health Fund had a deficit fund balance of (\$109,894) at June 30, 2007.

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

Response – We will try to pay for all services within the fiscal year they are received.

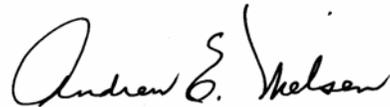
Conclusion – Response acknowledged. The County should investigate alternatives to return this fund to a sound financial position.

Lee County

Staff

This audit was performed by:

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