



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 30, 2010

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

The County had local tax revenue of \$14,014,921 for the year ended June 30, 2010, which included \$618,595 in tax credits from the state. The County forwarded \$10,641,961 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$3,372,960 of the local tax revenue to finance County operations, a 4.3 percent increase over the prior year. Other revenues included charges for service of \$254,540, operating grants, contributions and restricted interest of \$3,168,260, capital grants, contributions and restricted interest of \$1,155,842, local option sales tax of \$359,998, unrestricted investment earnings of \$100,093 and other general revenues of \$192,806.

Expenses for County operations totaled \$6,826,924, a 3.5 percent increase over the prior year. Expenses included \$3,572,219 for roads and transportation, \$935,256 for public safety and legal services and \$723,834 for mental health.

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/1010-0001-B00F.pdf>.

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ADAIR COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2010

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Adair County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steven Shelley	Board of Supervisors	Jan 2011
Cliff Sheriff	Board of Supervisors	Jan 2011
David Homan	Board of Supervisors	Jan 2013
John Twombly	Board of Supervisors	Jan 2013
Matt Wedemeyer	Board of Supervisors	Jan 2013
Melinda Schaefer	County Auditor	Jan 2013
Brenda Wallace	County Treasurer	Jan 2011
Janelle Schneider	County Recorder	Jan 2011
Brad Newton	County Sheriff	Jan 2013
Michael Maynes	County Attorney	Jan 2011
Kenneth E. Huddleson	County Assessor	Jan 2014

Adair County



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Independent Auditor's Report

To the Officials of Adair County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Adair County, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Adair County's management. Our responsibility is to express opinions on these financial statements based on our audit.

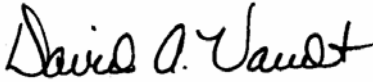
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 provides a reasonable basis for our opinions.

In our opinion, 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 Adair County at June 30, 2010, 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.

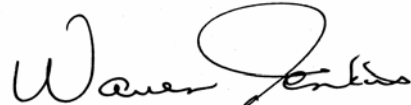
In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2010 on our consideration of Adair County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other 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, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 13 and 44 through 47 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 Adair County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 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

October 25, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Adair County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities decreased 16.8%, or approximately \$1,733,000, from fiscal year 2009 to fiscal year 2010. Operating grants, contributions and restricted interest decreased approximately \$965,000, capital grants, contributions and restricted interest decreased approximately \$807,000, property tax increased approximately \$155,000 and tax increment financing decreased approximately \$156,000.
- The County's expenses for governmental activities increased 3.5%, or approximately \$229,000, from fiscal year 2009 to fiscal year 2010. Roads and transportation expenses increased approximately \$204,000, physical health and social services expenses increased approximately \$74,000 and non-program expenses increased approximately \$36,000, while mental health expenses decreased approximately \$99,000.
- The County's net assets increased 10.5%, or approximately \$1,778,000, from June 30, 2009 to June 30, 2010.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Adair County as a whole and present an overall view of the County's finances.

The 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 Adair 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 Adair County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

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

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

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

The required financial statement for fiduciary funds is a statement of fiduciary assets and liabilities.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

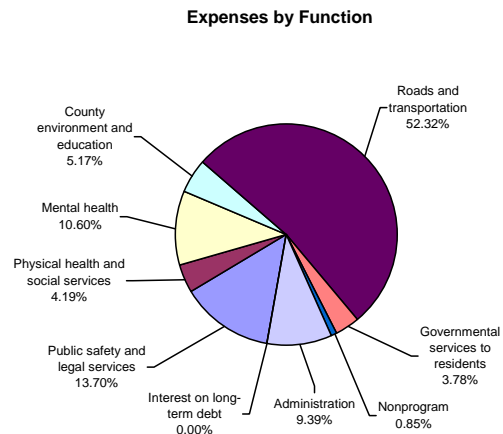
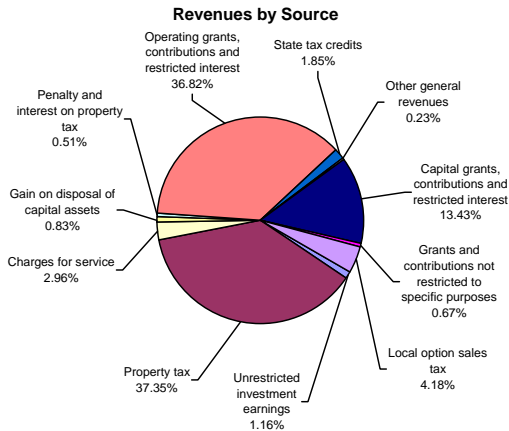
As noted earlier, net assets may serve over time as a useful indicator of financial position. Adair County's combined net assets strengthened from a year ago, increasing from approximately \$16,931,000 to approximately \$18,709,000. The analysis below shows the changes in the net assets of governmental activities from a year ago.

Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Current and other assets	\$ 9,234	8,434
Capital assets	13,207	12,111
Total assets	<u>22,441</u>	<u>20,545</u>
Long-term liabilities	126	122
Other liabilities	3,606	3,492
Total liabilities	<u>3,732</u>	<u>3,614</u>
Net assets:		
Invested in capital assets	13,207	12,111
Restricted	4,516	3,817
Unrestricted	986	1,003
Total net assets	<u>\$ 18,709</u>	<u>16,931</u>

Net assets of Adair County's governmental activities increased approximately \$1,778,000 (\$16,931,000 compared to \$18,709,000). The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment). Net assets invested in capital assets increased approximately \$1,096,000. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Restricted net assets increased approximately \$699,000, or 18.3%, from fiscal year 2009 to fiscal year 2010. Unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements — is approximately \$986,000. Unrestricted net assets decreased approximately \$17,000, or 1.7%, from fiscal year 2009 to fiscal year 2010.

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

	Year ended June 30,	
	2010	2009
Revenues:		
Program revenues:		
Charges for service	\$ 255	260
Operating grants, contributions and restricted interest	3,168	4,133
Capital grants, contributions and restricted interest	1,156	1,963
General revenues:		
Property tax	3,214	3,059
Tax increment financing	-	156
Penalty and interest on property tax	44	38
State tax credits	159	175
Local option sales tax	360	389
Grants and contributions not restricted to specific purposes	58	33
Unrestricted investment earnings	100	124
Gain on disposal of capital assets	71	-
Other general revenues	20	8
Total revenues	8,605	10,338
Program expenses:		
Public safety and legal services	935	898
Physical health and social services	286	212
Mental health	724	823
County environment and education	353	377
Roads and transportation	3,572	3,368
Governmental services to residents	258	241
Administration	641	642
Nonprogram	58	22
Interest on long-term debt	-	15
Total expenses	6,827	6,598
Increase in net assets	1,778	3,740
Net assets beginning of year	16,931	13,191
Net assets end of year	\$ 18,709	16,931



Adair County's net assets of governmental activities increased approximately \$1,778,000 during the year. Revenues for governmental activities decreased approximately \$1,733,000 from the prior year, with operating grants, contributions and restricted interest down from the prior year approximately \$965,000, or 23.3%, due to a decrease in funding for disaster assistance from the Federal Emergency Management Agency of approximately \$596,000 and a decrease in bridge replacement funding of approximately \$95,000. Capital grants, contributions and restricted interest decreased approximately \$807,000, or 41.1%, due to a decrease in farm-to-market projects being contributed to the County by the Iowa Department of Transportation. Property tax revenue increased approximately \$155,000 due to an increase in valuations. Tax increment financing revenues also decreased 100% due to the indebtedness related to TIF being paid in full.

The cost of all governmental activities this year was approximately \$6.8 million compared to approximately \$6.6 million last year. However, as shown in the Statement of Activities on page 17, the amount taxpayers ultimately financed for these activities was only approximately \$2,248,000 because some of the cost was paid by those directly benefited from the programs (\$254,540) or by other governments and organizations which subsidized certain programs with grants and contributions (\$4,324,102). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, decreased in fiscal year 2010 from approximately \$6,356,000 to approximately \$4,579,000. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$3,214,000 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Adair County completed the year, its governmental funds reported a combined fund balance of approximately \$5.1 million, an increase of approximately \$633,000 above last year's total of approximately \$4.5 million. The following are reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues exceeded expenditures. The ending fund balance increased approximately \$19,000 over the prior year to approximately \$996,000. General Fund revenues increased primarily due to increases in property and other county tax and intergovernmental revenues.
- The County has continued to look for ways to effectively manage the cost of mental health services. For fiscal year 2010, expenditures totaled approximately \$724,000, a decrease of 12% from the prior year. The decrease is primarily due to the increased federal Medicaid match applied by the State to the invoices received by the County which reduced the amount due from the County. The Special Revenue, Mental Health Fund balance at year end increased approximately \$84,000 over the prior year to approximately \$204,000. Clients continue to use waiver programs funded, in part, with state and federal dollars and the County received additional state funding to support mental health operations.
- The Special Revenue, Rural Services Fund ending fund balance decreased approximately \$21,000 from the prior year to approximately \$284,000. This decrease is due to an increase in transfers out to the Special Revenue, Secondary Roads Fund of approximately \$122,000.
- The Special Revenue, Secondary Roads Fund expenditures decreased approximately \$617,000 from the prior year due to a decrease in projects related to disaster recovery financed primarily with assistance received from the Federal Emergency Management Agency and a decrease in road projects. The Secondary Roads Fund balance at year end increased approximately \$290,000, or 14%, to approximately \$2,363,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, Adair County amended its budget two times. The first amendment was made in January 2010 and resulted in an increase in budgeted receipts of approximately \$2,300 related to prisoner reimbursements and workers compensation refunds. The amendment also increased budgeted disbursements by approximately \$21,000 related to an additional debt payment and construction consultant costs associated with the public safety center.

The second amendment was made in May 2010. This amendment increased budgeted receipts approximately \$38,500, primarily for prisoner reimbursements, election revenues and an emergency preparedness grant. The amendment also increased disbursements approximately \$356,000, primarily due to increased costs for winter road maintenance, purchase of an ambulance and an increase in the number of burials.

The County's receipts were approximately \$611,000 less than budgeted. Intergovernmental receipts were approximately \$667,000 less than budgeted due to the reduction of state credits, mental health property tax relief funds and allowable growth funds. Also, two secondary roads projects were started late and were not completed. Therefore, reimbursements were not requested and received by the end of the year. Miscellaneous receipts were approximately \$41,000 more than budgeted due to reimbursement from a private source in mental health, insurance reimbursements for a damaged secondary roads truck and conservation losses. Charges for service receipts were approximately \$23,000 more than budgeted due to increased receipts for driver's license fees, sheriff fees and camping fees.

Total disbursements were approximately \$2,634,000 less than budgeted. Actual disbursements for the capital projects, roads and transportation and mental health functions were approximately \$1,452,000, \$749,000 and \$215,000, respectively, less than budgeted. These differences were due to several projects not being completed due to the architect work not being completed, funding not being available and weather issues. Projects included a conservation project and secondary roads projects, including a bridge replacement project, a watershed project and a LOST project. Roads and transportation was due to equipment not being received in the fiscal year and bridge, culvert and road maintenance not being completed. Mental health disbursements were down due to the increase in the federal Medicaid match.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, Adair County had approximately \$13,207,000 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2010	2009
Land	\$ 336	336
Intangibles, road network	34	34
Construction in progress	99	2,617
Buildings and improvements	430	444
Improvements other than buildings	87	92
Equipment and vehicles	2,129	2,171
Infrastructure, road network	10,092	6,417
Total	<u>\$ 13,207</u>	<u>12,111</u>
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation	\$ 1,061	
Construction projects	306	
Purchase of patrol cars and secondary road vehicles	217	
Total	<u>\$ 1,584</u>	

The County had depreciation expense of \$489,029 in fiscal year 2010 and total accumulated depreciation of approximately \$4 million at June 30, 2010. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2010, Adair County had no outstanding long-term debt.

The Constitution of the State of Iowa limits the amount of debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Adair County's outstanding debt is significantly below its constitutional debt limit of \$29.8 million. Additional information about the County's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Adair County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various County activities. In an ongoing effort to maintain County services, the Adair County Board of Supervisors is committed to limiting expenditure increases, using excess fund balances and reducing funding to non-mandated programs to provide essential services for the citizens of Adair County.

The local option sales tax will generate funds to rebuild County bridges. Adair County has a large number of bridges, with many in need of repair or replacement. The local option sales tax will remain in effect for four more years. The County estimates it will receive \$396,000 of local option sales tax in fiscal year 2011.

Amounts available for appropriation in the operating budget are approximately \$9.3 million, a decrease of .61% from the final fiscal year 2010 budget.

If these estimates are realized, the County's budgetary operating balance is expected to decrease by the close of fiscal year 2011.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Adair County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Adair County Auditor's Office, 400 Public Square, Ste 5, Greenfield, Iowa 50849.

Adair County

Basic Financial Statements

Exhibit A

Adair County
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 4,883,808
Receivables:	
Property tax:	
Delinquent	10,835
Succeeding year	3,281,000
Interest and penalty on property tax	7,087
Accounts	11,237
Accrued interest	7,460
Due from other governments	655,334
Inventories	204,727
Prepaid items	172,754
Capital assets (net of accumulated depreciation)	13,206,763
Total assets	<u>22,441,005</u>
Liabilities	
Accounts payable	108,592
Salaries and benefits payable	53,944
Due to other governments	162,334
Deferred revenue:	
Succeeding year property tax	3,281,000
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences	80,800
Portion due or payable after one year:	
Compensated absences	44,712
Net OPEB liability	854
Total liabilities	<u>3,732,236</u>
Net Assets	
Invested in capital assets	13,206,763
Restricted for:	
Supplemental levy purposes	337,761
Mental health purposes	205,005
Secondary roads purposes	2,685,061
Capital projects	407
Other purposes	1,287,698
Unrestricted	986,074
Total net assets	<u>\$ 18,708,769</u>

See notes to financial statements.

Adair County

Statement of Activities

Year ended June 30, 2010

	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	\$ 935,256	30,074	13,618	-	(891,564)
Physical health and social services	285,962	21,301	109,663	-	(154,998)
Mental health	723,834	-	504,704	-	(219,130)
County environment and education	352,878	32,095	24,724	-	(296,059)
Roads and transportation	3,572,219	9,254	2,514,347	1,155,842	107,224
Governmental services to residents	257,821	146,988	101	-	(110,732)
Administration	641,034	14,508	1,100	-	(625,426)
Nonprogram	57,740	320	-	-	(57,420)
Interest on long-term debt	180	-	3	-	(177)
Total	\$ 6,826,924	254,540	3,168,260	1,155,842	(2,248,282)
General Revenues:					
Property and other county tax levied for general purposes					3,214,142
Penalty and interest on property tax					43,750
State tax credits					158,818
Local option sales tax					359,998
Grants and contributions not restricted to specific purpose					58,236
Unrestricted investment earnings					100,093
Gain on disposal of capital assets					70,690
Miscellaneous					20,130
Total general revenues					4,025,857
Change in net assets					1,777,575
Net assets beginning of year					16,931,194
Net assets end of year					\$ 18,708,769

See notes to financial statements.

Adair County
Balance Sheet
Governmental Funds

June 30, 2010

Assets	General	Special Revenue	
		Mental Health	Rural Services
Cash and pooled investments	\$ 889,619	350,421	288,204
Receivables:			
Property tax:			
Delinquent	6,099	968	3,768
Succeeding year	1,875,000	288,000	1,118,000
Interest and penalty on property tax	7,087	-	-
Accounts	9,879	-	219
Accrued interest	7,052	-	-
Due from other funds	-	-	-
Due from other governments	31,089	-	-
Inventories	731	-	-
Prepaid items	104,882	-	342
Total assets	\$ 2,931,438	639,389	1,410,533
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 9,133	13,487	563
Salaries and benefits payable	13,951	303	3,904
Due to other funds	1,929	-	-
Due to other governments	22,664	132,594	-
Deferred revenue:			
Succeeding year property tax	1,875,000	288,000	1,118,000
Other	13,186	968	3,768
Total liabilities	1,935,863	435,352	1,126,235
Fund balances:			
Reserved for supplemental levy purposes	336,063	-	-
Unreserved, designated for:			
Three Mile structure repair	-	-	10,000
Courthouse repair and other capital projects	21,598	-	-
Ambulance and equipment replacement	50,000	-	-
Unreserved, undesignated, reported in:			
General fund	587,914	-	-
Special revenue funds	-	204,037	274,298
Capital project fund	-	-	-
Total fund balances	995,575	204,037	284,298
Total liabilities and fund balances	\$ 2,931,438	639,389	1,410,533

See notes to financial statements.

Secondary Roads	Nonmajor	Total
2,063,712	1,220,665	4,812,621
-	-	10,835
-	-	3,281,000
-	-	7,087
1,139	-	11,237
-	408	7,460
1,929	-	1,929
547,620	76,625	655,334
203,996	-	204,727
65,529	-	170,753
<u>2,883,925</u>	<u>1,297,698</u>	<u>9,162,983</u>
75,816	9,593	108,592
35,786	-	53,944
-	-	1,929
7,076	-	162,334
-	-	3,281,000
402,201	-	420,123
<u>520,879</u>	<u>9,593</u>	<u>4,027,922</u>
-	-	336,063
-	-	10,000
-	-	21,598
-	-	50,000
-	-	587,914
2,363,046	1,287,698	4,129,079
-	407	407
<u>2,363,046</u>	<u>1,288,105</u>	<u>5,135,061</u>
<u>2,883,925</u>	<u>1,297,698</u>	<u>9,162,983</u>

Adair County

Adair County

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

June 30, 2010

Total governmental fund balances (page 19) \$ 5,135,061

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$17,183,683 and the accumulated depreciation is \$3,976,920. 13,206,763

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 420,123

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 73,188

Compensated absences payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported in the funds. (126,366)

Net assets of governmental activities (page 16) \$ 18,708,769

See notes to financial statements.

Adair County

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

Year ended June 30, 2010

	General	Special Revenue	
		Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 1,818,862	288,685	1,060,435
Local option sales tax	-	-	-
Interest and penalty on property tax	36,663	-	-
Intergovernmental	244,199	504,467	52,651
Licenses and permits	7,013	-	3,868
Charges for service	200,135	-	420
Use of money and property	99,471	-	-
Miscellaneous	9,877	14,779	219
Total revenues	<u>2,416,220</u>	<u>807,931</u>	<u>1,117,593</u>
Expenditures:			
Operating:			
Public safety and legal services	905,362	-	16,407
Physical health and social services	273,257	-	12,705
Mental health	-	723,834	-
County environment and education	255,276	-	93,785
Roads and transportation	-	-	155,052
Governmental services to residents	250,831	-	3,431
Administration	637,063	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	<u>2,321,789</u>	<u>723,834</u>	<u>281,380</u>
Excess (deficiency) of revenues over (under) expenditures	<u>94,431</u>	<u>84,097</u>	<u>836,213</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(75,104)	-	(856,883)
Total other financing sources (uses)	<u>(75,104)</u>	<u>-</u>	<u>(856,883)</u>
Net change in fund balances	19,327	84,097	(20,670)
Fund balances beginning of year	<u>976,248</u>	<u>119,940</u>	<u>304,968</u>
Fund balances end of year	<u>\$ 995,575</u>	<u>204,037</u>	<u>284,298</u>

See notes to financial statements.

Secondary Roads	Nonmajor	Total
-	-	3,167,982
-	359,998	359,998
-	-	36,663
2,590,758	14,053	3,406,128
700	-	11,581
3	1,626	202,184
-	15,848	115,319
31,887	8,680	65,442
<u>2,623,348</u>	<u>400,205</u>	<u>7,365,297</u>
-	578	922,347
-	-	285,962
-	-	723,834
-	-	349,061
3,162,249	-	3,317,301
-	3,757	258,019
-	-	637,063
-	3,180	3,180
204,267	30,781	235,048
<u>3,366,516</u>	<u>38,296</u>	<u>6,731,815</u>
<u>(743,168)</u>	<u>361,909</u>	<u>633,482</u>
1,033,383	24,799	1,058,182
-	(126,195)	(1,058,182)
<u>1,033,383</u>	<u>(101,396)</u>	<u>-</u>
290,215	260,513	633,482
<u>2,072,831</u>	<u>1,027,592</u>	<u>4,501,579</u>
<u>2,363,046</u>	<u>1,288,105</u>	<u>5,135,061</u>

Adair County

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

Year ended June 30, 2010

Net change in fund balances - Total governmental funds (page 23) \$ 633,482

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 expenditures and contributed capital assets exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 452,231	
Capital assets contributed by the Iowa Department of Transportation	1,061,436	
Depreciation expense	(489,029)	1,024,638

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as a increase in financial resources. 70,690

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	7,100	
Other	40,887	47,987

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 3,000

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

Compensated absences	(6,866)	
Other postemployment benefits	(854)	(7,720)

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. 5,498

Change in net assets of governmental activities (page 17) \$ 1,777,575

See notes to financial statements.

Adair County
Statement of Net Assets
Proprietary Fund
June 30, 2010

	<u>Internal Service - Employee Health Insurance</u>
Assets	
Cash and cash equivalents	\$ 71,187
Prepaid items	2,001
	<u>73,188</u>
Liabilities	
None	<u>-</u>
Net Assets	
Unrestricted	<u><u>\$ 73,188</u></u>

See notes to financial statements.

Exhibit H

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

Year ended June 30, 2010

		<u>Internal Service - Employee Health Insurance</u>
Operating revenues:		
Contributions from operating funds		\$ 19,800
Premium reimbursements from employees and others		37,222
Miscellaneous		1,214
Total operating revenues		<u>58,236</u>
Operating expenses:		
Medical claims	\$ 11,515	
Insurance premiums	39,763	
Miscellaneous	2,313	53,591
Operating income		<u>4,645</u>
Non-operating revenues:		
Interest income		853
Net income		<u>5,498</u>
Net assets beginning of year		<u>67,690</u>
Net assets end of year		<u><u>\$ 73,188</u></u>

See notes to financial statements.

Adair County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2010

	Internal Service - Employee Health Insurance
Cash flows from operating activities:	
Cash received from operating funds	\$ 19,800
Premium reimbursements from employees and others	37,222
Miscellaneous	2,035
Cash paid to suppliers for services	(52,191)
Net cash provided by operating activities	6,866
Cash flows from investing activities:	
Interest on investments	853
Net increase in cash and cash equivalents	7,719
Cash and cash equivalents beginning of year	63,468
Cash and cash equivalents end of year	\$ 71,187
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 4,645
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in due from other governments	821
Decrease in prepaid items	2,400
(Decrease) in accounts payable	(1,000)
Net cash provided by operating activities	\$ 6,866

See notes to financial statements.

Adair County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2010

Assets

Cash and pooled investments:	
County Treasurer	\$ 474,111
Other County officials	22,116
Receivables:	
Property tax:	
Delinquent	28,174
Succeeding year	10,271,000
Accrued interest	1
Special assessments	100,418
Due from other governments	10,076
Prepaid expenses	9,687
Total assets	<u>10,915,583</u>

Liabilities

Accounts payable	278
Salaries and benefits payable	1,094
Due to other governments	10,874,098
Trusts payable	26,373
Compensated absences	13,740
Total liabilities	<u>10,915,583</u>

Net assets \$ -

See notes to financial statements.

Adair County

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

Adair 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, Adair 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. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: County Assessor's Conference Board, Three Mile Reservoir Agency, Adair County Sanitary Landfill and Recycling Center, County Emergency Management Commission and South Central Iowa Regional 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.

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. 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 consists of capital assets, net of accumulated depreciation.

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

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

Additionally, the County reports the following funds:

Proprietary Fund – An Internal Service Fund is 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 fund of the County applies 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 Fund is charges to various funds for health plan costs. Operating expenses for the Internal Service Fund 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 Iowa Public Agency Investment 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2009.

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.

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, 2010, 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, intangibles and infrastructure assets acquired after July 1, 2003 (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	\$ 65,000
Intangibles	65,000
Land, buildings and improvements	5,000
Equipment and vehicles	5,000

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

Asset Class	Estimated Useful lives (In Years)
Buildings and improvements	25 - 50
Land improvements	10 - 50
Infrastructure	10 - 65
Intangibles	5 - 20
Equipment	3 - 20
Vehicles	3 - 15

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 sick leave hours for subsequent use or for payment upon termination, death or retirement. Accumulated sick leave is generally paid at 30%, not to exceed 90 days, upon retirement. Certain employees are annually paid for 20% of sick leave hours in excess of 90 days. 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, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Secondary Roads Fund.

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

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

Fund Equity – In the governmental fund financial statements, 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 net assets of the Internal Service, Employee Health Insurance Fund are designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$10,546 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the County.

Credit risk. The investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of credit risk. The County places no limit on the amount that may be invested in any one issuer.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue: Secondary Roads	General	\$ 1,929

This balance results 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, 2010 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	General	\$ 50,305
	Special Revenue: Rural Services	856,883
	Local Option Sales Tax	126,195
SIRWA Grid	General	12,500
Urban Renewal	General	2,299
Capital Projects	General	10,000
Total		\$ 1,058,182

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, 2010 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 336,067	-	-	336,067
Intangibles, road network	34,220	-	-	34,220
Construction in progress	2,616,628	1,367,166	3,884,784	99,010
Total capital assets not being depreciated	2,986,915	1,367,166	3,884,784	469,297
Capital assets being depreciated:				
Buildings	653,380	-	-	653,380
Improvements other than buildings	186,649	-	-	186,649
Equipment and vehicles	5,078,697	312,501	576,539	4,814,659
Infrastructure, road network	7,174,914	3,884,784	-	11,059,698
Total capital assets being depreciated	13,093,640	4,197,285	576,539	16,714,386
Less accumulated depreciation for:				
Buildings	209,581	13,773	-	223,354
Improvements other than buildings	94,098	5,997	-	100,095
Equipment and vehicles	2,907,772	259,188	481,229	2,685,731
Infrastructure, road network	757,669	210,071	-	967,740
Total accumulated depreciation	3,969,120	489,029	481,229	3,976,920
Total capital assets being depreciated, net	9,124,520	3,708,256	95,310	12,737,466
Governmental activities capital assets, net	\$ 12,111,435	5,075,422	3,980,094	13,206,763

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 40,793
County environment and education	18,834
Roads and transportation	415,521
Administration	13,881
Total depreciation expense - governmental activities	\$ 489,029

Governmental Accounting Standards Board Statement No. 51, Accounting and Financial Reporting for Intangible Assets, was implemented during fiscal year 2010. A right of way totaling \$34,220 which was previously reported as land, road network, was reclassified as intangibles, road network. Restatement of the beginning net assets and capital assets for governmental activities was not necessary because the right of way has an indefinite useful life and, therefore, is not subject to amortization.

(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	\$ 22,664
Special Revenue:		
Mental Health	Services	132,594
Secondary Roads	Services	7,076
		<u>139,670</u>
Total for governmental funds		<u>\$ 162,334</u>
Agency:		
County Assessor	Collections	\$ 219,066
Schools		6,025,846
Community Colleges		264,868
Corporations		2,389,076
Townships		276,991
County Hospital		1,197,555
Auto License and Use Tax		221,153
All other		279,543
Total for agency funds		<u>\$ 10,874,098</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Capital Loan Note	Compensated Absences	Net OPEB Liability	Total
Balance beginning of year	\$ 3,000	118,646	-	121,646
Increases	-	111,995	854	112,849
Decreases	3,000	105,129	-	108,129
Balance end of year	<u>\$ -</u>	<u>125,512</u>	<u>854</u>	<u>126,366</u>
Due within one year	<u>\$ -</u>	<u>80,800</u>	<u>-</u>	<u>80,800</u>

Capital Loan Note

On January 18, 2002, the County issued a \$250,000 subordinate urban renewal revenue capital loan note with interest at 6% per annum. The note proceeds were used to provide additional funds to the Iowa Interstate Railroad for construction of a rail spur line to serve the I-80 industrial business park.

During the year ended June 30, 2010, the final payment on the note was made, consisting of interest of \$180 and principal of \$3,000.

(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 4.30% of their annual covered salary and the County is required to contribute 6.65% 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, 2010, 2009 and 2008 were \$137,953, \$127,203 and \$123,384, respectively, equal to the required contributions for each year.

(9) Other Postemployment Benefits (OPEB)

Plan Description – The County operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 56 active and 4 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the County's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 10,692
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	10,692
Contributions made	(9,838)
Increase in net OPEB obligation	854
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u>\$ 854</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the County contributed \$9,838 to the medical plan. Plan members eligible for benefits contributed \$17,352, or 63.8% of the premium costs.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 10,692	92.0%	\$ 854

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$106,539, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$106,539. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,926,000 and the ratio of the UAAL to covered payroll was 5.6%. As of June 30, 2010, there were no trust fund assets.

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

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

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the County's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based on Scale T-4 of the Actuary's Pension Handbook.

Projected claim costs of the medical plan are \$7,494 annually for retirees participating in the \$1,000 deductible plan and \$6,579 annually for retirees participating in the \$2,000 deductible plan. All coverage ceases when the retiree reaches age 65. Therefore, claim costs are not calculated for retirees over the age of 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(10) Risk Management

The County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2010 were \$104,957.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2010, no liability has been recorded in the County's financial statements. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of

whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Employee Health Insurance Plan

The Internal Service, Employee Health Insurance Fund was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by County contributions and is administered by the County. The County assumes liability for claims up to the individual deduction limitations of \$1,000 and \$2,000 for single and family coverage, respectively.

Contributions to the Employee Health Insurance Fund are recorded as expenditures from the operating funds. The County's contribution for the year ended June 30, 2010 was \$19,200.

The County was not required to obtain an actuarial report for the period ended June 30, 2010 since its plan qualifies as a "mini plan." A liability is 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. There were no amounts payable from the Employee Health Insurance Fund at June 30, 2010. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 1,000
Incurred claims	53,591
Payments on claims during the fiscal year	<u>(54,591)</u>
Unpaid claims end of year	<u><u>\$ -</u></u>

(12) Southern Iowa Rural Water Association (SIRWA) Agreement

On May 25, 2005, the County entered into a 28E agreement with SIRWA and nine other counties to provide joint financing of certain water development facilities at Gooseberry Lake to enable SIRWA to withdraw water sufficient to supply treated water to portions of SIRWA's rural water distribution system. Pursuant to the agreement, SIRWA planned to obtain a loan of \$500,000 to cover the initial costs. Liability for repayment of the loan was to be borne by the respective parties (counties) to the agreement. Adair County's share of the debt was 12.5%, or \$62,500. Each participant was required to establish a SIRWA Grid sinking and reserve fund, into which there shall be appropriated from the participant's General Fund sufficient funds to pay the principal and interest on the loan. The County established the Special Revenue, SIRWA Grid Fund and transferred \$62,500 from the General Fund to this fund in compliance with the 28E agreement. During the year ended June 30, 2010, the County was informed the project would not proceed and

the 28E agreement with SIRWA would be dissolved. The County is waiting for the final dissolution of the 28E agreement and formal termination of the project before redirecting the funds previously set-aside.

(13) Subsequent Event

On September 1, 2010, the County issued \$3,000,000 of general obligation bonds, Series 2010 for the purpose of paying costs related to the design, construction and furnishing of the Adair County public safety building. These bonds are payable from a continuing annual levy of property tax against all taxable property of the County.

(14) Construction Commitment

The County has entered into a contract totaling \$570,512 for emergency watershed protection measures to relieve hazards created by rainfall events of 2007 and 2008. As of June 30, 2010, costs of \$68,229 have been incurred on the project. The remaining balance of \$502,283 at June 30, 2010 will be paid as work on the project progresses.

Required Supplementary Information

Adair 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, 2010

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Property and other county tax	\$ 3,489,120	3,503,944	3,503,944	(14,824)
Interest and penalty on property tax	36,663	27,000	27,000	9,663
Intergovernmental	3,421,425	4,053,066	4,088,066	(666,641)
Licenses and permits	12,481	9,450	9,450	3,031
Charges for service	199,828	173,129	177,229	22,599
Use of money and property	118,453	124,748	124,748	(6,295)
Miscellaneous	62,577	19,811	21,538	41,039
Total receipts	<u>7,340,547</u>	<u>7,911,148</u>	<u>7,951,975</u>	<u>(611,428)</u>
Disbursements:				
Public safety and legal services	926,972	985,314	1,041,141	114,169
Physical health and social services	279,285	263,246	301,746	22,461
Mental health	740,324	954,924	954,924	214,600
County environment and education	356,140	367,743	368,743	12,603
Roads and transportation	3,277,161	3,775,903	4,025,903	748,742
Governmental services to residents	255,831	272,111	276,261	20,430
Administration	645,269	669,816	694,481	49,212
Debt service	3,180	-	3,180	-
Capital projects	258,168	1,710,000	1,710,000	1,451,832
Total disbursements	<u>6,742,330</u>	<u>8,999,057</u>	<u>9,376,379</u>	<u>2,634,049</u>
Excess (deficiency) of receipts over (under) disbursements	598,217	(1,087,909)	(1,424,404)	2,022,621
Other financing sources, net	<u>500</u>	<u>1,000</u>	<u>1,000</u>	<u>(500)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	598,717	(1,086,909)	(1,423,404)	2,022,121
Balance beginning of year	<u>4,213,904</u>	<u>2,938,703</u>	<u>4,209,620</u>	<u>4,284</u>
Balance end of year	<u>\$ 4,812,621</u>	<u>1,851,794</u>	<u>2,786,216</u>	<u>2,026,405</u>

See accompanying independent auditor's report.

Adair County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 7,340,547	24,750	7,365,297
Expenditures	6,742,330	(10,515)	6,731,815
Net	598,217	35,265	633,482
Other financing sources, net	500	(500)	-
Beginning fund balances	4,213,904	287,675	4,501,579
Ending fund balances	<u>\$ 4,812,621</u>	<u>322,440</u>	<u>5,135,061</u>

See accompanying independent auditor's report.

Adair County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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 Internal Service and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds 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, two budget amendments increased budgeted disbursements by \$377,322. The budget amendments are reflected in the final budgeted amounts.

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

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the debt service function prior to a budget amendment. Also, disbursements in two departments exceeded the amounts appropriated prior to appropriation amendments.

Adair County

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

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	-	\$ 107	107	0.00%	\$ 1,926	5.6%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Adair County

Other Supplementary Information

Adair County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2010

	Resource Enhance- ment and Protection	County Recorder's Records Management	Sheriff's Reserve
Assets			
Cash and pooled investments	\$ 160,217	7,865	2,372
Accrued interest receivable	165	-	-
Due from other governments	-	138	-
Total assets	\$ 160,382	8,003	2,372
Liabilities and Fund Equity			
Liabilities:			
Accounts Payable	\$ -	-	-
Fund equity:			
Fund balances:			
Unreserved, undesignated:			
Special revenue funds	160,382	8,003	2,372
Capital projects fund	-	-	-
Total fund equity	160,382	8,003	2,372
Total liabilities and fund equity	\$ 160,382	8,003	2,372

See accompanying independent auditor's report.

Special Revenue					
Special Law Enforcement	Local Option Sales Tax	SIRWA Grid	Conservation Land Acquisition	Capital Projects	Total
4,446	624,229	66,385	345,151	10,000	1,220,665
-	-	-	243	-	408
-	76,437	-	50	-	76,625
4,446	700,666	66,385	345,444	10,000	1,297,698
-	-	-	-	9,593	9,593
4,446	700,666	66,385	345,444	-	1,287,698
-	-	-	-	407	407
4,446	700,666	66,385	345,444	407	1,288,105
4,446	700,666	66,385	345,444	10,000	1,297,698

Adair County

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

Year ended June 30, 2010

	Resource Enhance- ment and Protection	County Recorder's Records Management	Sheriff's Reserve
Revenues:			
Local option sales tax	\$ -	-	-
Intergovernmental	13,924	-	129
Charges for service	-	1,496	-
Use of money and property	2,879	101	26
Miscellaneous	-	-	1,100
Total revenues	16,803	1,597	1,255
Expenditures:			
Operating:			
Public safety and legal services	-	-	578
Governmental services to residents	-	3,757	-
Debt service	-	-	-
Capital projects	21,188	-	-
Total expenditures	21,188	3,757	578
Excess (deficiency) of revenues over (under) expenditures	(4,385)	(2,160)	677
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(4,385)	(2,160)	677
Fund balances beginning of year	164,767	10,163	1,695
Fund balances end of year	\$ 160,382	8,003	2,372

See accompanying independent auditor's report.

Special Revenue							
Special Law Enforcement	Urban Renewal	Local Option Sales Tax	SIRWA Grid	Conservation Land Acquisition	Capital Projects		Total
-	-	359,998	-	-	-		359,998
-	-	-	-	-	-		14,053
-	-	-	-	130	-		1,626
55	3	7,381	816	4,587	-		15,848
-	-	-	-	7,580	-		8,680
55	3	367,379	816	12,297	-		400,205
-	-	-	-	-	-		578
-	-	-	-	-	-		3,757
-	3,180	-	-	-	-		3,180
-	-	-	-	-	9,593		30,781
-	3,180	-	-	-	9,593		38,296
55	(3,177)	367,379	816	12,297	(9,593)		361,909
-	2,299	-	12,500	-	10,000		24,799
-	-	(126,195)	-	-	-		(126,195)
-	2,299	(126,195)	12,500	-	-		(101,396)
55	(878)	241,184	13,316	12,297	407		260,513
4,391	878	459,482	53,069	333,147	-		1,027,592
4,446	-	700,666	66,385	345,444	407		1,288,105

Adair County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2010

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,789	59,651	88,354
Other County officials	22,116	-	-	-
Receivables:				
Property tax:				
Delinquent	-	377	547	17,492
Succeeding year	-	118,000	166,000	5,920,000
Accrued interest	-	-	-	-
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Prepaid expenses	-	-	7,758	-
Total assets	\$ 22,116	120,166	233,956	6,025,846
Liabilities				
Accounts payable	\$ -	-	56	-
Salaries and benefits payable	-	-	1,094	-
Due to other governments	22,116	120,166	219,066	6,025,846
Trusts payable	-	-	-	-
Compensated absences	-	-	13,740	-
Total liabilities	\$ 22,116	120,166	233,956	6,025,846

See accompanying independent auditor's report.

Community Colleges	Corpor- ations	Townships	County Hospital	Auto License and Use Tax	Other	Total
4,000	26,783	4,145	17,808	221,153	50,428	474,111
-	-	-	-	-	-	22,116
868	4,293	846	3,747	-	4	28,174
260,000	2,358,000	272,000	1,176,000	-	1,000	10,271,000
-	-	-	-	-	1	1
-	-	-	-	-	100,418	100,418
-	-	-	-	-	10,076	10,076
-	-	-	-	-	1,929	9,687
264,868	2,389,076	276,991	1,197,555	221,153	163,856	10,915,583
-	-	-	-	-	222	278
-	-	-	-	-	-	1,094
264,868	2,389,076	276,991	1,197,555	221,153	137,261	10,874,098
-	-	-	-	-	26,373	26,373
-	-	-	-	-	-	13,740
264,868	2,389,076	276,991	1,197,555	221,153	163,856	10,915,583

Adair County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2010

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 18,148	113,088	221,079	5,664,464
Additions:				
Property and other county tax	-	119,485	167,497	5,969,435
State tax credits	-	5,656	8,222	278,805
Office fees and collections	166,360	-	-	-
Electronic transaction fees	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	108,693	-	-	-
Miscellaneous	-	-	512	-
Total additions	275,053	125,141	176,231	6,248,240
Deductions:				
Agency remittances:				
To other funds	77,718	-	-	-
To other governments	84,674	118,063	163,354	5,886,858
Trusts paid out	108,693	-	-	-
Total deductions	271,085	118,063	163,354	5,886,858
Balances end of year	\$ 22,116	120,166	233,956	6,025,846

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	County Hospital	Auto License and Use Tax	Other	Total
250,616	2,270,967	261,639	1,129,842	201,729	166,006	10,297,578
261,436	2,204,668	272,040	1,186,496	-	1,127	10,182,184
12,639	84,587	13,520	56,291	-	57	459,777
-	-	-	-	-	-	166,360
-	-	-	-	-	4,452	4,452
-	-	-	-	2,362,692	-	2,362,692
-	-	-	-	-	18,268	18,268
-	-	-	-	-	124,307	233,000
-	-	-	-	-	50,462	50,974
274,075	2,289,255	285,560	1,242,787	2,362,692	198,673	13,477,707
-	-	-	-	79,734	-	157,452
259,823	2,171,146	270,208	1,175,074	2,263,534	200,823	12,593,557
-	-	-	-	-	-	108,693
259,823	2,171,146	270,208	1,175,074	2,343,268	200,823	12,859,702
264,868	2,389,076	276,991	1,197,555	221,153	163,856	10,915,583

Adair County

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

For the Last Ten Years

	2010	2009	2008	2007
Revenues:				
Property and other county tax	\$ 3,167,982	3,059,585	2,940,051	2,787,863
Tax increment financing	-	155,821	224,152	228,134
Local option sales tax	359,998	389,100	384,633	331,171
Interest and penalty on property tax	36,663	32,615	31,970	24,795
Intergovernmental	3,406,128	4,056,407	3,570,799	3,253,022
Licenses and permits	11,581	10,785	7,996	5,892
Charges for service	202,184	192,838	209,970	187,939
Use of money and property	115,319	143,624	168,860	192,220
Miscellaneous	65,442	58,841	57,627	59,213
Total	\$ 7,365,297	8,099,616	7,596,058	7,070,249
Expenditures:				
Operating:				
Public safety and legal services	\$ 922,347	911,956	872,781	848,714
Physical health and social services	285,962	211,656	196,164	205,790
Mental health	723,834	822,903	899,924	832,900
County environment and education	349,061	356,852	302,639	297,218
Roads and transportation	3,317,301	3,225,904	3,049,285	3,208,317
Governmental services to residents	258,019	241,661	192,932	208,987
Administration	637,063	631,016	652,064	534,470
Debt service	3,180	310,430	236,213	392,157
Capital projects	235,048	915,695	207,174	511,154
Total	\$ 6,731,815	7,628,073	6,609,176	7,039,707

See accompanying independent auditor's report.

Modified Accrual Basis					
2006	2005	2004	2003	2002	2001
2,811,648	2,759,307	2,529,614	2,406,413	2,302,360	1,811,236
197,312	177,752	131,004	93,929	63,977	46,175
288,283	-	-	-	-	-
30,144	36,769	30,289	30,345	30,068	31,858
3,698,104	3,260,303	3,165,275	3,215,237	3,365,886	3,235,033
8,773	7,082	9,030	7,572	6,717	6,580
194,725	189,774	224,647	167,700	159,442	150,152
145,577	86,316	111,041	148,491	222,016	266,385
56,182	59,825	51,068	36,438	26,973	43,170
7,430,748	6,577,128	6,251,968	6,106,125	6,177,439	5,590,589
838,304	886,203	819,585	764,704	757,693	733,758
187,905	199,768	246,061	226,891	246,771	268,417
738,628	622,373	638,398	711,682	712,624	664,716
282,131	274,487	304,014	328,902	368,066	366,393
3,689,971	3,229,715	3,471,194	3,429,358	3,306,388	3,366,660
283,523	256,920	220,558	237,891	239,767	237,776
532,093	512,160	517,903	492,307	494,149	421,497
204,537	166,302	187,774	131,275	134,048	93,562
707,302	299,472	109,285	296,527	706,042	66,398
7,464,394	6,447,400	6,514,772	6,619,537	6,965,548	6,219,177

Adair County



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA

Auditor of State

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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 Adair County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Adair County, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated October 25, 2010. 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 Adair 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 Adair County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Adair County's internal control over financial reporting.

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

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

Compliance and Other Matters

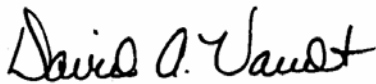
As part of obtaining reasonable assurance about whether Adair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2010 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.

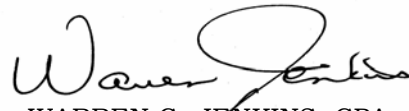
Adair County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit Adair County's responses and, accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Adair 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

October 25, 2010

Adair County
Schedule of Findings
Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Financial Reporting – During the audit, we identified material amounts of receivables and payables 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 receivables and payables are identified and included in the County’s financial statements.

Response – The County will continue to use the spreadsheet provided to track grant awards, expenditures and revenues. A memo will be sent out at the end of each fiscal year reminding departments to let the County Auditor’s Office know about payables and the County Treasurer’s Office know about receivables.

Conclusion – Response accepted.

- (B) County Extension Service Segregation of Duties – During our review of internal control, the existing procedures were 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.

One individual in the County Extension Office opens the mail, handles cash, issues receipts, prepares bank deposits and records receipts.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the office should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response – The Extension Council took action at its September meeting and have assigned two part-time employees to be responsible to open the mail and issue receipts.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Adair County

Schedule of Findings

Year ended June 30, 2010

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amount budgeted in the debt service function prior to a budget amendment. Also, disbursements in two departments exceeded the amounts appropriated prior to appropriation amendments.

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

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

Response – The Board of Supervisors will attempt to comply with Chapter 331.435 of the Code of Iowa in the future. The Board will use all means including Chapter 331.434(6) of the Code of Iowa to ensure departments do not go over budget before an amendment can be done.

Conclusion – Response accepted.

- (2) 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.
- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Rick Mikkelsen, Secondary Roads Superintendent, son-in-law is part owner of R&D Services	Diesel fuel and parts	\$ 15,071
Sandy Mitchell, Deputy Auditor, brother-in-law is owner of Don Carlos Insurance	Insurance	2,557

In accordance with Chapter 331.342(10) of the Code of Iowa, the purchase of diesel fuel and parts and insurance may represent conflicts of interest since the total transactions for each individual exceeded \$1,500 during the fiscal year.

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

Adair County

Schedule of Findings

Year ended June 30, 2010

Response – The County will consult the County Attorney. R&D Services is the only provider of off road diesel fuel in Stuart.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. However, certain minutes of the meetings of the Board of Supervisors were not signed.

Recommendation – The County should ensure all minutes are properly signed.

Response – Procedures are in place which will help ensure minutes are signed properly.

Conclusion – Response accepted.

- (7) 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.
- (8) 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).
- (9) County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2010 for the County Extension Office did not exceed the amount budgeted.

Adair County

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Tammy A. Hollingsworth, Senior Auditor II
Adam D. Steffensmeier, Staff Auditor
Ainslee M. Barnes, Assistant Auditor
Jennifer M. Kopp, Assistant Auditor
Nicole R. Williams, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State