



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE

November 21, 2011

Contact: Andy Nielsen
515/281-5834

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

The County had local tax revenue of \$14,552,830 for the year ended June 30, 2011, which included \$592,603 in tax credits from the state. The County forwarded \$11,055,853 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$3,496,977 of the local tax revenue to finance County operations, a 4% increase over the prior year. Other revenues included charges for service of \$284,077, operating grants, contributions and restricted interest of \$3,259,016, capital grants, contributions and restricted interest of \$2,094,129, local option sales tax of \$382,925, unrestricted investment earnings of \$79,193 and other general revenues of \$148,449.

Expenses for County operations totaled \$8,008,222, a 17% increase over the prior year. Expenses included \$4,353,647 for roads and transportation, \$1,066,617 for public safety and legal services and \$830,960 for mental health.

The significant increase in expenses is primarily due to an increase in the roads and transportation function for projects and capital asset depreciation.

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/1110-0001-B00F.pdf>.

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ADAIR COUNTY

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

JUNE 30, 2011

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Adair County
Officials
(Before January 2011)

<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

(After January 2011)

David Homan	Board of Supervisors	Jan 2013
John Twombly	Board of Supervisors	Jan 2013
Matt Wedemeyer	Board of Supervisors	Jan 2013
Steven Shelley	Board of Supervisors	Jan 2015
Cliff Sheriff	Board of Supervisors	Jan 2015
Melinda Schaefer	County Auditor	Jan 2013
Brenda Wallace	County Treasurer	Jan 2015
Janelle Schneider	County Recorder	Jan 2015
Brad Newton	County Sheriff	Jan 2013
Michael Maynes	County Attorney	Jan 2015
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, 2011, 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.

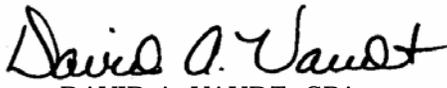
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain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

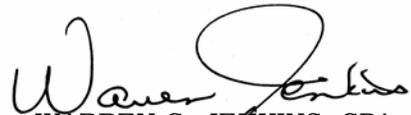
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Adair County at June 30, 2011, and the respective changes in financial 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 26, 2011 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 14 and 46 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 26, 2011

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, 2011. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 13.2%, or approximately \$1,139,000, from fiscal year 2010 to fiscal year 2011. Capital grants, contributions and restricted interest increased approximately \$938,000.
- The County's expenses for governmental activities increased 17.3%, or approximately \$1,181,000, from fiscal year 2010 to fiscal year 2011. Roads and transportation expenses increased approximately \$782,000 and public safety and legal services expenses increased approximately \$132,000.
- The County's net assets increased 9.3%, or approximately \$1,736,000, from June 30, 2010 to June 30, 2011.

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 financial 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the County.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net 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, 3) the Debt Service Fund and 4) 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 \$18,709,000 to approximately \$20,445,000. The analysis below shows the changes in the net assets of governmental activities from a year ago.

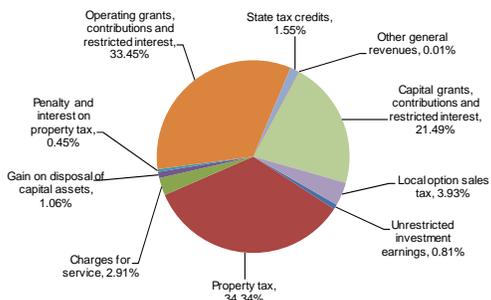
Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Current and other assets	\$ 13,742	9,234
Capital assets	17,087	13,207
Total assets	<u>30,829</u>	<u>22,441</u>
Long-term liabilities	6,125	126
Other liabilities	4,259	3,606
Total liabilities	<u>10,384</u>	<u>3,732</u>
Net assets:		
Invested in capital assets, net of related debt	15,586	13,207
Restricted	4,607	4,804
Unrestricted	<u>252</u>	<u>698</u>
Total net assets	<u>\$ 20,445</u>	<u>18,709</u>

Net assets of Adair County's governmental activities increased approximately \$1,736,000 (\$18,709,000 compared to \$20,445,000). 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 \$2,379,000. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Restricted net assets decreased approximately \$197,000, or 4.1%, from fiscal year 2010 to fiscal year 2011. 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 \$252,000. Unrestricted net assets decreased approximately \$446,000, or 63.9%, from fiscal year 2010 to fiscal year 2011. The decrease in unrestricted net assets is primarily due to approximately \$410,000 of general obligation bonds issued for non-capital purposes. Prior year net assets of approximately \$288,000 associated with the Special Revenue, Rural Services Fund were reclassified from unrestricted to restricted net assets.

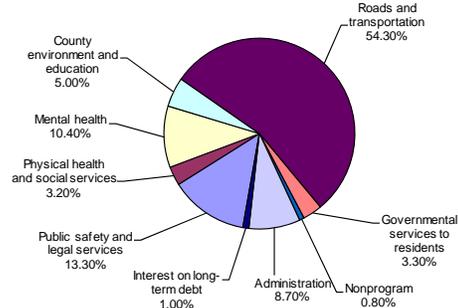
Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2011	2010
Revenues:		
Program revenues:		
Charges for service	\$ 284	255
Operating grants, contributions and restricted interest	3,259	3,168
Capital grants, contributions and restricted interest	2,094	1,156
General revenues:		
Property tax	3,346	3,214
Tax increment financing	-	-
Penalty and interest on property tax	44	44
State tax credits	151	159
Local option sales tax	383	360
Grants and contributions not restricted to specific purposes	-	58
Unrestricted investment earnings	79	100
Gain on disposal of capital assets	103	71
Other general revenues	1	20
Total revenues	9,744	8,605
Program expenses:		
Public safety and legal services	1,067	935
Physical health and social services	254	286
Mental health	831	724
County environment and education	397	353
Roads and transportation	4,354	3,572
Governmental services to residents	264	258
Administration	696	641
Nonprogram	63	58
Interest on long-term debt	82	-
Total expenses	8,008	6,827
Increase in net assets	1,736	1,778
Net assets beginning of year	18,709	16,931
Net assets end of year	\$ 20,445	18,709

Revenues by Source



Expenses by Function



Adair County's net assets of governmental activities increased approximately \$1,736,000 during the year. Revenues for governmental activities increased approximately \$1,139,000 over the prior year, with capital grants, contributions and restricted interest increasing from the prior year approximately \$938,000, or 81.1%, due to an increase in assets contributed to the County and an increase in grant funding for the Emergency Watershed Protection Program and bridge replacement.

The cost of all governmental activities this year was approximately \$8.0 million compared to approximately \$6.8 million last year. However, as shown in the Statement of Activities on page 17, the amount taxpayers ultimately financed for these activities was only \$2,371,000 because some of the cost was paid by those directly benefited from the programs (\$284,077) or by other governments and organizations which subsidized certain programs with grants and contributions (\$5,353,145). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, increased in fiscal year 2011 from approximately \$4,579,000 to approximately \$5,637,000. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$3,346,000 in property tax (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 \$9.3 million, an increase of approximately \$4.2 million above last year's total of approximately \$5.1 million. The following are reasons for the changes in fund balances of the major funds from the prior year:

- General Fund expenditures exceeded revenues. The ending fund balance decreased approximately \$16,000 from the prior year to approximately \$1,392,000. General Fund revenues increased due to an increase in property and other county tax revenue, while expenditures increased primarily due to public safety and legal services and administration expenditures.
- The County has continued to look for ways to effectively manage the cost of mental health services. For fiscal year 2011, expenditures totaled approximately \$831,000, an increase of 14.8% over the prior year. The increase is primarily due to a decrease in the federal Medicaid match received in the previous fiscal year.

The Special Revenue, Mental Health Fund balance at year end increased approximately \$29,000 over the prior year to approximately \$233,000. 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 \$13,000 from the prior year to approximately \$271,000. This decrease is due to an increase in expenditures for salaries and equipment.
- The Special Revenue, Secondary Roads Fund expenditures increased approximately \$1,628,000 from the prior year due to an increase in projects related to the Emergency Watershed Protection Program project and the purchase of equipment and vehicles. The Secondary Roads Fund balance at year end decreased approximately \$230,000, or 9.7%, to approximately \$2,134,000.
- The Capital Projects fund received net bond proceeds of \$6,024,815 to fund the construction of a public safety building and for improvements to bridges, roads and culverts.

BUDGETARY HIGHLIGHTS

Over the course of the year, Adair County amended its budget three times. The first amendment was made in August 2010 and resulted in an increase in other financing sources of \$3 million and budgeted disbursements of approximately \$3.3 million related to the general obligation bond proceeds for the public safety building and related expenditures.

The second amendment was made in January 2011. This amendment increased budgeted receipts approximately \$4,000, primarily for prisoner reimbursements and workers compensation reimbursements. In addition, there was an increase in other financing sources and uses of approximately \$65,000 for the transfer to cover the interest payment on the general obligation bonds. The amendment also increased disbursements approximately \$432,000, primarily due to the purchase of new equipment and pre-bonding consultation expenses.

The third amendment was made in May 2011. This amendment increased budgeted receipts approximately \$570,000, primarily for prisoner reimbursements, workers' compensation reimbursements and grant revenue for FEMA, IJOBS and Emergency Watershed Protection. In addition, there was an increase in other financing sources of approximately \$3.3 million related to general obligation bond proceeds for the Northwest Wind Farm project. The amendment also increased budgeted disbursements approximately \$486,000 related to road materials and buildings, painting expenses and TIF project expenses. Other financing uses also increased approximately \$254,000 due to bond expenses related to the Northwest Wind Farm, LOST and TIF project expenses.

The County's receipts were approximately \$79,000 less than budgeted. Intergovernmental receipts were approximately \$372,000 less than budgeted due to payment for a secondary roads project received in fiscal year 2010 which was budgeted for fiscal year 2011 and another secondary roads project which was anticipated to be started but was delayed. Property and other county tax receipts were approximately \$180,000 more than budgeted due to receiving more local option sales tax than anticipated.

Total disbursements were approximately \$3,053,000 less than budgeted. Actual disbursements for the capital projects, roads and transportation and mental health functions were approximately \$2,257,000, \$484,000 and \$150,000, respectively, less than budgeted. The difference for capital projects was due to an inability to determine how much of the project would be completed in fiscal year 2011, so the full amount of the estimated cost was put into the budget. Roads and transportation was under budget due to secondary roads projects not completed due to timing and bid issues. The County expected to complete more projects than it was able to, and some projects needed to be rebid because original bids were too high. Mental health disbursements decreased due to one client going on private pay, one client passing away and one client qualifying for Medicaid during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, Adair County had approximately \$17,087,000 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,	
	2011	2010
Land	\$ 671	336
Intangibles, road network	34	34
Construction in progress	1,828	99
Buildings and improvements	426	430
Improvements other than buildings	100	87
Equipment and vehicles	2,811	2,129
Infrastructure, road network	11,217	10,092
Total	<u>\$ 17,087</u>	<u>13,207</u>
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation and others	\$ 1,213	
Construction projects	2,047	
Purchase of Secondary Roads vehicles	1,048	
Total	<u>\$ 4,308</u>	

The County had depreciation expense of \$739,353 in fiscal year 2011 and total accumulated depreciation of approximately \$4,042,000 at June 30, 2011. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2011, Adair County had \$6,000,000 in general obligation bonds outstanding, compared to \$0 at June 30, 2010.

Debt increased as a result of issuing general obligation bonds for the Adair County Public Safety Building and Northwest Wind Farm Urban Renewal Area.

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 \$35.9 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 2012 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 one more year. The County estimates it will receive \$366,000 of local option sales tax in fiscal year 2012.

Amounts available for appropriation in the operating budget are approximately \$10.8 million, a decrease of 19.9% from the final fiscal year 2011 budget.

If these estimates are realized, the County's budgetary operating balance is expected to decrease by the close of fiscal year 2012.

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.

Basic Financial Statements

Exhibit A

Adair County
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 8,990,965
Receivables:	
Property tax:	
Delinquent	8,013
Succeeding year	3,804,000
Succeeding year tax increment financing	14,000
Interest and penalty on property tax	11,092
Accounts	9,942
Accrued interest	5,956
Due from other governments	488,019
Inventories	212,166
Prepaid items	198,327
Capital assets (net of accumulated depreciation)	17,086,926
Total assets	<u>30,829,406</u>
Liabilities	
Accounts payable	180,467
Accrued interest payable	17,180
Salaries and benefits payable	66,732
Due to other governments	176,712
Deferred revenue:	
Succeeding year property tax	3,804,000
Succeeding year tax increment financing	14,000
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	115,000
Compensated absences	79,866
Portion due or payable after one year:	
General obligation bonds	5,885,000
Compensated absences	43,526
Net OPEB liability	1,610
Total liabilities	<u>10,384,093</u>
Net Assets	
Invested in capital assets, net of related debt	15,585,835
Restricted for:	
Supplemental levy purposes	293,254
Mental health purposes	233,296
Rural services purposes	270,865
Secondary roads purposes	2,119,265
Conservation land acquisition purposes	357,142
SIRWA water grid	66,913
Resource enhancement and protection	174,300
Bridge maintenance and replacement	1,076,086
Other purposes	16,691
Unrestricted	251,666
Total net assets	<u>\$ 20,445,313</u>

See notes to financial statements.

Adair County

Statement of Activities

Year ended June 30, 2011

	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	\$ 1,066,617	42,641	12,946	41,634	(969,396)
Physical health and social services	254,101	22,626	82,447	-	(149,028)
Mental health	830,960	-	554,563	-	(276,397)
County environment and education	396,938	35,837	22,492	-	(338,609)
Roads and transportation	4,353,647	20,694	2,525,265	2,052,495	244,807
Governmental services to residents	264,114	149,864	63	-	(114,187)
Administration	696,477	11,325	1,100	-	(684,052)
Nonprogram	62,875	1,090	60,140	-	(1,645)
Interest on long-term debt	82,493	-	-	-	(82,493)
Total	\$ 8,008,222	284,077	3,259,016	2,094,129	(2,371,000)
General Revenues:					
Property and other county tax levied for general purposes					3,345,691
Penalty and interest on property tax					44,608
State tax credits					151,286
Local option sales tax					382,925
Unrestricted investment earnings					79,193
Gain on disposal of capital assets					103,444
Miscellaneous					397
Total general revenues					4,107,544
Change in net assets					1,736,544
Net assets beginning of year					18,708,769
Net assets end of year					\$ 20,445,313

See notes to financial statements.

Adair County
Balance Sheet
Governmental Funds

June 30, 2011

	General	Special Revenue	
		Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 1,209,606	390,200	284,541
Receivables:			
Property tax:			
Delinquent	4,885	751	2,377
Succeeding year	2,129,000	205,000	1,215,000
Succeeding year tax increment financing	-	-	-
Interest and penalty on property tax	11,092	-	-
Accounts	8,717	-	820
Accrued interest	5,800	-	-
Due from other funds	-	-	-
Due from other governments	39,353	-	-
Interfund receivable	65,563	-	-
Inventories	-	-	-
Prepaid items	122,445	10	132
Total assets	\$ 3,596,461	595,961	1,502,870
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 7,408	28,450	1,332
Salaries and benefits payable	17,681	125	6,340
Due to other funds	2,803	-	-
Due to other governments	31,968	129,090	6,956
Interfund payable	-	-	-
Deferred revenue:			
Succeeding year property tax	2,129,000	205,000	1,215,000
Succeeding year tax increment financing	-	-	-
Other	15,977	751	2,377
Total liabilities	<u>2,204,837</u>	<u>363,416</u>	<u>1,232,005</u>
Fund balances:			
Nonexpendable:			
Inventories	-	-	-
Prepaid items	122,445	10	132
Restricted for:			
Supplemental levy purposes	232,017	-	-
Mental health purposes	-	232,535	-
Rural services purposes	-	-	270,733
Secondary roads purposes	-	-	-
Conservation land acquisition/capital improvements	357,142	-	-
Capital projects	-	-	-
SIRWA water grid	66,913	-	-
Resource enhancement and protection	-	-	-
Bridge maintenance and replacement	-	-	-
Other purposes	-	-	-
Assigned for:			
Courthouse repair	70,000	-	-
Sheriff's equipment	41,000	-	-
Unassigned	502,107	-	-
Total fund balances	<u>1,391,624</u>	<u>232,545</u>	<u>270,865</u>
Total liabilities and fund balances	\$ 3,596,461	595,961	1,502,870

See notes to financial statements.

Secondary Roads	Capital Projects	Nonmajor	Total
1,693,899	4,113,533	1,226,462	8,918,241
-	-	-	8,013
-	-	255,000	3,804,000
-	-	14,000	14,000
-	-	-	11,092
405	-	-	9,942
-	-	156	5,956
2,803	-	-	2,803
406,972	-	40,727	487,052
-	-	-	65,563
212,166	-	-	212,166
72,264	-	-	194,851
<u>2,388,509</u>	<u>4,113,533</u>	<u>1,536,345</u>	<u>13,733,679</u>
139,431	1,846	-	178,467
42,586	-	-	66,732
-	-	-	2,803
8,698	-	-	176,712
-	-	65,563	65,563
-	-	255,000	3,804,000
-	-	14,000	14,000
64,280	-	-	83,385
<u>254,995</u>	<u>1,846</u>	<u>334,563</u>	<u>4,391,662</u>
212,166	-	-	212,166
72,264	-	-	194,851
-	-	-	232,017
-	-	-	232,535
-	-	-	270,733
1,849,084	-	-	1,849,084
-	-	-	357,142
-	4,111,687	-	4,111,687
-	-	-	66,913
-	-	174,300	174,300
-	-	1,076,086	1,076,086
-	-	16,691	16,691
-	-	-	70,000
-	-	-	41,000
-	-	(65,295)	436,812
<u>2,133,514</u>	<u>4,111,687</u>	<u>1,201,782</u>	<u>9,342,017</u>
<u>2,388,509</u>	<u>4,113,533</u>	<u>1,536,345</u>	<u>13,733,679</u>

Adair County

Adair County

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

June 30, 2011

Total governmental fund balances (page 19)	\$ 9,342,017
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
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 \$21,129,389 and the accumulated depreciation is \$4,042,463.	17,086,926
Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the funds.	83,385
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.	75,167
Long-term liabilities, including bonds payable, compensated absences payable, other postemployment benefits payable and accrued interest payable, are not due and payable in the current year and, therefore, are not reported in the funds.	<u>(6,142,182)</u>
Net assets of governmental activities (page 16)	<u><u>\$ 20,445,313</u></u>

See notes to financial statements.

Adair County

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

Year ended June 30, 2011

	General	Special Revenue	
		Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 1,895,762	291,656	1,161,095
Local option sales tax	-	-	-
Interest and penalty on property tax	40,603	-	-
Intergovernmental	197,279	567,812	51,917
Licenses and permits	7,144	-	5,051
Charges for service	216,889	-	-
Use of money and property	87,192	-	-
Miscellaneous	18,989	-	891
Total revenues	2,463,858	859,468	1,218,954
Expenditures:			
Operating:			
Public safety and legal services	948,660	-	83,747
Physical health and social services	240,196	-	13,905
Mental health	-	830,960	-
County environment and education	288,613	-	106,283
Roads and transportation	-	-	192,924
Governmental services to residents	259,144	-	4,351
Administration	730,973	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	2,467,586	830,960	401,210
Excess (deficiency) of revenues over (under) expenditures	(3,728)	28,508	817,744
Other financing sources (uses):			
Sale of capital assets	-	-	-
Operating transfers in	40,790	-	-
Operating transfers out	(52,842)	-	(831,177)
General obligation bonds issued	-	-	-
Net premium on bonds issued	-	-	-
Total other financing sources (uses)	(12,052)	-	(831,177)
Net change in fund balances	(15,780)	28,508	(13,433)
Fund balances beginning of year, as restated	1,407,404	204,037	284,298
Fund balances end of year	\$ 1,391,624	232,545	270,865

See notes to financial statements.

Secondary Roads	Capital Projects	Nonmajor	Total
-	-	-	3,348,513
-	-	382,925	382,925
-	-	-	40,603
3,685,829	-	11,834	4,514,671
850	-	-	13,045
-	-	1,727	218,616
-	45,461	9,014	141,667
26,241	-	1,100	47,221
3,712,920	45,461	406,600	8,707,261
-	-	198	1,032,605
-	-	-	254,101
-	-	-	830,960
-	-	174	395,070
4,205,935	-	-	4,398,859
-	-	897	264,392
-	-	-	730,973
-	-	65,313	65,313
788,339	1,779,766	-	2,568,105
4,994,274	1,779,766	66,582	10,540,378
(1,281,354)	(1,734,305)	340,018	(1,833,117)
15,258	-	-	15,258
1,036,564	-	-	1,077,354
-	(179,230)	(14,105)	(1,077,354)
-	6,000,000	-	6,000,000
-	24,815	-	24,815
1,051,822	5,845,585	(14,105)	6,040,073
(229,532)	4,111,280	325,913	4,206,956
2,363,046	407	875,869	5,135,061
2,133,514	4,111,687	1,201,782	9,342,017

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, 2011

Net change in fund balances - Total governmental funds (page 23) \$ 4,206,956

**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	\$ 3,321,236	
Capital assets contributed by the Iowa Department of Transportation	868,030	
Capital assets contributed by others	345,000	
Depreciation expense	<u>(739,353)</u>	3,794,913

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. 85,250

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

Property tax	(2,822)	
Other	<u>(333,916)</u>	(336,738)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. (6,000,000)

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	2,120	
Interest on long-term debt	(17,180)	
Other postemployment benefits	<u>(756)</u>	(15,816)

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. 1,979

Change in net assets of governmental activities (page 17) \$ 1,736,544

See notes to financial statements.

Adair County
 Statement of Net Assets
 Proprietary Fund

June 30, 2011

	<u>Internal Service - Employee Health Insurance</u>
Assets	
Cash and cash equivalents	\$ 72,724
Due from other governments	967
Prepaid items	<u>3,476</u>
	77,167
Liabilities	
Accounts payable	<u>2,000</u>
Net Assets	
Unrestricted	<u><u>\$ 75,167</u></u>

See notes to financial statements.

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

Year ended June 30, 2011

		<u>Internal Service - Employee Health Insurance</u>
Operating revenues:		
Contributions from operating funds		\$ 19,892
Premium reimbursements from employees and others		36,380
Miscellaneous		<u>3,868</u>
Total operating revenues		60,140
Operating expenses:		
Medical claims	\$ 19,077	
Insurance premiums	<u>39,649</u>	<u>58,726</u>
Operating income		1,414
Non-operating revenues:		
Interest income		<u>565</u>
Net income		1,979
Net assets beginning of year		<u>73,188</u>
Net assets end of year		<u><u>\$ 75,167</u></u>

See notes to financial statements.

Adair County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2011

	Internal Service - Employee Health Insurance
Cash flows from operating activities:	
Cash received from operating funds	\$ 19,892
Premium reimbursements from employees and others	36,380
Miscellaneous	2,901
Cash paid to suppliers for services	(58,201)
Net cash provided by operating activities	972
Cash flows from investing activities:	
Interest on investments	565
Net increase in cash and cash equivalents	1,537
Cash and cash equivalents beginning of year	71,187
Cash and cash equivalents end of year	\$ 72,724
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,414
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in due from other governments	(967)
Increase in prepaid items	(1,475)
Increase in accounts payable	2,000
Net cash provided by operating activities	\$ 972

See notes to financial statements.

Adair County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2011

Assets

Cash and pooled investments:

County Treasurer	\$ 458,050
Other County officials	18,094

Receivables:

Property tax:

Delinquent	27,132
Succeeding year	10,699,000

Special assessments	85,479
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Due from other governments	9,924
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Prepaid expenses	168
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Total assets	<u>11,297,847</u>
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Liabilities

Accounts payable	7,240
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Salaries and benefits payable	1,294
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Due to other governments	11,248,524
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Trusts payable	28,094
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Compensated absences	12,695
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Total liabilities	<u>11,297,847</u>
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Net assets	<u><u>\$ -</u></u>
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See notes to financial statements.

Adair County

Notes to Financial Statements

June 30, 2011

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

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

Unrestricted net assets consist of net assets not meeting the definition of the 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 the road use tax allocation from the State of Iowa, required transfers from the General and the Special Revenue, Rural Services Funds and other revenues to be used for secondary road construction and maintenance.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

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

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

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

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

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

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2010.

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, 2011, 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 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
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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net 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, 2011. 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

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

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

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

Unassigned – All amounts not included in other classifications.

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, 2011 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 \$10,555 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) Interfund Assets/Liabilities

The detail of amounts due from and due to other funds at June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue: Secondary Roads	General	<u>\$ 2,803</u>

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.

The detail of interfund receivables and payables at June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	<u>\$ 65,563</u>

The General Fund loaned \$65,563 to the Debt Service Fund to make the scheduled interest payment on the general obligation bonds issued during the fiscal year. The amount will be repaid in fiscal year 2012.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Capital Projects	\$ 40,790
Special Revenue: Secondary Roads	General	52,842
	Special Revenue: Rural Services	831,177
	Local Option Sales Tax	14,105
	Capital Projects	138,440
Total		<u>\$ 1,077,354</u>

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 336,067	335,000	-	671,067
Intangibles, road network	34,220	-	-	34,220
Construction in progress	99,010	3,259,770	1,530,887	1,827,893
Total capital assets not being depreciated	<u>469,297</u>	<u>3,594,770</u>	<u>1,530,887</u>	<u>2,533,180</u>
Capital assets being depreciated:				
Buildings	653,380	10,000	-	663,380
Improvements other than buildings	186,649	19,950	-	206,599
Equipment and vehicles	4,814,659	1,090,446	769,460	5,135,645
Infrastructure, road network	11,059,698	1,530,887	-	12,590,585
Total capital assets being depreciated	<u>16,714,386</u>	<u>2,651,283</u>	<u>769,460</u>	<u>18,596,209</u>
Less accumulated depreciation for:				
Buildings	223,354	14,773	-	238,127
Improvements other than buildings	100,095	6,396	-	106,491
Equipment and vehicles	2,685,731	312,473	673,810	2,324,394
Infrastructure, road network	967,740	405,711	-	1,373,451
Total accumulated depreciation	<u>3,976,920</u>	<u>739,353</u>	<u>673,810</u>	<u>4,042,463</u>
Total capital assets being depreciated, net	<u>12,737,466</u>	<u>1,911,930</u>	<u>95,650</u>	<u>14,553,746</u>
Governmental activities capital assets, net	<u>\$ 13,206,763</u>	<u>5,506,700</u>	<u>1,626,537</u>	<u>17,086,926</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 33,568
County environment and education	28,466
Roads and transportation	663,388
Administration	<u>13,931</u>
Total depreciation expense - governmental activities	<u>\$ 739,353</u>

(6) Due to Other Governments

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

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	<u>\$ 31,968</u>
Special Revenue:		
Mental Health	Services	129,090
Rural Services	Services	6,956
Secondary Roads	Services	8,698
		<u>144,744</u>
Total for governmental funds		<u><u>\$ 176,712</u></u>
Agency:		
County Assessor	Collections	\$ 211,152
Schools		6,429,630
Community Colleges		314,491
Corporations		2,266,300
Townships		292,411
County Hospital		1,272,220
Auto License and Use Tax		183,258
All other		279,062
Total for agency funds		<u><u>\$ 11,248,524</u></u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	<u>General</u>	<u>Compensated</u>	<u>Net</u>	
	<u>Obligation</u>	<u>Absences</u>	<u>OPEB</u>	<u>Total</u>
	<u>Bonds</u>		<u>Liability</u>	
Balance beginning of year	\$ -	125,512	854	126,366
Increases	6,000,000	111,164	756	6,111,920
Decreases	-	113,284	-	113,284
Balance end of year	<u>\$ 6,000,000</u>	<u>123,392</u>	<u>1,610</u>	<u>6,125,002</u>
Due within one year	<u>\$ 115,000</u>	<u>79,866</u>	<u>-</u>	<u>194,866</u>

A summary of the County's June 30, 2011 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Series 2010		
	Issued Sept 1, 2010		
	Interest Rates	Principal	Interest
2012	2.00%	\$ 115,000	86,750
2013	2.00	120,000	84,450
2014	2.00	120,000	82,050
2015	2.00	125,000	79,650
2016	2.00	125,000	77,150
2017-2021	2.50 - 3.00	700,000	341,813
2022-2026	3.00 - 3.25	855,000	235,813
2027-2030	3.50 - 3.75	840,000	79,113
Total		\$ 3,000,000	1,066,789

Year Ending June 30,	Series 2011			Total	
	Issued Apr 28, 2011			Principal	Interest
	Interest Rates	Principal	Interest		
2012	-	\$ -	65,500	115,000	152,250
2013	2.00%	500,000	60,000	620,000	144,450
2014	2.00	800,000	50,000	920,000	132,050
2015	2.00	850,000	34,000	975,000	113,650
2016	2.00	850,000	17,000	975,000	94,150
2017-2021		-	-	700,000	341,813
2022-2026		-	-	855,000	235,813
2027-2030		-	-	840,000	79,113
Total		\$ 3,000,000	226,500	6,000,000	1,293,289

(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 4.50% of their annual covered salary and the County is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$150,495, \$137,953 and \$127,203, respectively, equal to the required contributions for each year.

(9) Other Postemployment Benefits (OPEB)

Plan Description – The County operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 56 active and 4 retired members in the plan. Retired 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, 2011, 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	38
Adjustment to annual required contribution	<u>(136)</u>
Annual OPEB cost	10,594
Contributions made	<u>(9,838)</u>
Increase in net OPEB obligation	756
Net OPEB obligation beginning of year	<u>854</u>
Net OPEB obligation end of year	<u>\$ 1,610</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, 2011.

For the year ended June 30, 2011, the County contributed \$9,838 to the medical plan. Plan members eligible for benefits contributed \$17,770, or 64.4% of the premium costs.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 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
2011	10,594	93.0%	1,610

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, 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 \$2,207,000 and the ratio of the UAAL to covered payroll was 4.8%. As of June 30, 2011, 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 of 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 645 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 150 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, 2011 were \$107,426.

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. For members requiring specific coverage from \$3,000,000 to \$12,000,000, 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, 2011, no liability has been recorded in the County's financial statements. As of June 30, 2011, 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, 2011 was \$19,892.

The County was not required to obtain an actuarial report for the period ended June 30, 2011 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, 2011. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ -
Incurred claims	19,077
Payments on claims during the fiscal year	<u>(17,077)</u>
Unpaid claims end of year	<u>\$ 2,000</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, and will then assign the balance of the funds set-aside in the General Fund to be used for a future water project.

(13) Financial Condition

The Debt Service Fund reported an unassigned fund balance deficit of \$65,295 at June 30, 2011. The County plans to eliminate the deficit through the collection of property tax in fiscal year 2012.

(14) Construction Commitment

The County has entered into contracts totaling \$2,394,110 for the Adair County Public Safety Building. As of June 30, 2011, costs of \$1,432,616 have been incurred on the project. The balance of \$961,494 remaining on the contracts at June 30, 2011 will be paid as work on the project progresses.

(15) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Special Revenue		
	Conservation		
	General	Land Acquisition	SIRWA Grid
Balances June, 30 2010, as previously reported	\$ 995,575	345,444	66,385
Change in fund type classification per implementation of GASB Statement No. 54	411,829	(345,444)	(66,385)
Balances July 1, 2010, as restated	\$ 1,407,404	-	-

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, 2011

	Actual	Budgeted Amounts		Final to
		Original	Final	Actual Variance
Receipts:				
Property and other county tax	\$ 3,767,292	3,587,121	3,587,121	180,171
Interest and penalty on property tax	40,603	27,000	27,000	13,603
Intergovernmental	4,302,844	4,141,457	4,674,626	(371,782)
Licenses and permits	12,535	9,600	10,400	2,135
Charges for service	221,400	168,899	180,214	41,186
Use of money and property	143,190	103,518	103,549	39,641
Miscellaneous	51,684	10,220	35,805	15,879
Total receipts	8,539,548	8,047,815	8,618,715	(79,167)
Disbursements:				
Public safety and legal services	1,042,070	1,009,378	1,071,868	29,798
Physical health and social services	242,722	272,700	288,826	46,104
Mental health	819,689	969,906	969,906	150,217
County environment and education	391,168	402,577	402,577	11,409
Roads and transportation	4,393,432	4,033,430	4,877,430	483,998
Governmental services to residents	265,146	278,745	279,742	14,596
Administration	732,334	746,196	792,196	59,862
Non-program				-
Debt service	65,313	-	65,063	(250)
Capital projects	2,522,127	1,607,000	4,779,000	2,256,873
Total disbursements	10,474,001	9,319,932	13,526,608	3,052,607
Excess (deficiency) of receipts over (under) disbursements	(1,934,453)	(1,272,117)	(4,907,893)	2,973,440
Other financing sources, net	6,040,073	-	6,064,590	(24,517)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	4,105,620	(1,272,117)	1,156,697	2,948,923
Balance beginning of year	4,812,621	3,758,776	4,209,620	603,001
Balance end of year	\$ 8,918,241	2,486,659	5,366,317	3,551,924

See accompanying independent auditor's report.

Adair County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 8,539,548	167,713	8,707,261
Expenditures	10,474,001	66,377	10,540,378
Net	(1,934,453)	101,336	(1,833,117)
Other financing sources, net	6,040,073	-	6,040,073
Beginning fund balances	4,812,621	322,440	5,135,061
Ending fund balances	\$ 8,918,241	423,776	9,342,017

See accompanying independent auditor's report.

Adair County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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, the Debt Service Fund and the Capital Projects Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$4,206,676. 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, 2011, disbursements exceeded the amount budgeted in the debt service function and disbursements in certain 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		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)			
2010	Jul 1, 2009	-	\$ 107	107	0.00%	\$ 1,926	5.6%
2011	Jul 1, 2009	-	107	107	0.00	2,207	4.8

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.

See accompanying independent auditor's report.

Adair County

Other Supplementary Information

Adair County
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2011

	Resource Enhance- ment and Protection	County Recorder's Records Management	Sheriff's Reserve
Assets			
Cash and pooled investments	\$ 174,144	8,750	3,313
Receivables:			
Property tax:			
Succeeding year property tax	-	-	-
Succeeding year tax increment financing	-	-	-
Accrued interest	156	-	-
Due from other governments	-	146	-
Total assets	\$ 174,300	8,896	3,313
Liabilities and Fund Equity			
Liabilities:			
Interfund payable	\$ -	-	-
Deferred revenue:			
Succeeding year property tax	-	-	-
Succeeding year tax increment financing	-	-	-
Fund balances:			
Restricted for:			
Resource enhancement and protection	174,300	-	-
Bridge maintenance and replacement	-	-	-
Other purposes	-	8,896	3,313
Unassigned	-	-	-
Total fund balances	174,300	8,896	3,313
Total liabilities and fund balances	\$ 174,300	8,896	3,313

See accompanying independent auditor's report.

Special Revenue				
Special Law Enforcement	Urban Renewal	Local Option Sales Tax	Debt Service	Total
4,482	-	1,035,505	268	1,226,462
-	-	-	255,000	255,000
-	14,000	-	-	14,000
-	-	-	-	156
-	-	40,581	-	40,727
4,482	14,000	1,076,086	255,268	1,536,345
-	-	-	65,563	65,563
-	-	-	255,000	255,000
-	14,000	-	-	14,000
-	14,000	-	320,563	334,563
-	-	-	-	174,300
-	-	1,076,086	-	1,076,086
4,482	-	-	-	16,691
-	-	-	(65,295)	(65,295)
4,482	-	1,076,086	(65,295)	1,201,782
4,482	14,000	1,076,086	255,268	1,536,345

Adair County

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

Year ended June 30, 2011

	Resource Enhance- ment and Protection	County Recorder's Records Management	Sheriff's Reserve
Revenues:			
Local option sales tax	\$ -	-	-
Intergovernmental	11,818	-	16
Charges for service	-	1,727	-
Use of money and property	2,274	63	23
Miscellaneous	-	-	1,100
Total revenues	14,092	1,790	1,139
Expenditures:			
Operating:			
Public safety and legal services	-	-	198
County environment and education	174	-	-
Governmental services to residents	-	897	-
Debt service	-	-	-
Total expenditures	174	897	198
Excess (deficiency) of revenues over (under) expenditures	13,918	893	941
Other financing uses:			
Operating transfers out	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	13,918	893	941
Fund balances beginning of year	160,382	8,003	2,372
Fund balances end of year	\$ 174,300	8,896	3,313

See accompanying independent auditor's report.

Special Revenue				
Special Law Enforcement	Urban Renewal	Local Option Sales Tax	Debt Service	Total
-	-	382,925	-	382,925
-	-	-	-	11,834
-	-	-	-	1,727
36	-	6,600	18	9,014
-	-	-	-	1,100
36	-	389,525	18	406,600
-	-	-	-	198
-	-	-	-	174
-	-	-	-	897
-	-	-	65,313	65,313
-	-	-	65,313	66,582
36	-	389,525	(65,295)	340,018
-	-	(14,105)	-	(14,105)
36	-	375,420	(65,295)	325,913
4,446	-	700,666	-	875,869
4,482	-	1,076,086	(65,295)	1,201,782

Adair County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2011

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,727	62,559	84,840
Other County officials	18,094	-	-	-
Receivables:				
Property tax:				
Delinquent	-	309	433	15,790
Succeeding year	-	129,000	162,000	6,329,000
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Prepaid expenses	-	-	149	-
Total assets	\$ 18,094	131,036	225,141	6,429,630
Liabilities				
Accounts payable	\$ -	-	-	-
Salaries and benefits payable	-	-	1,294	-
Due to other governments	18,094	131,036	211,152	6,429,630
Trusts payable	-	-	-	-
Compensated absences	-	-	12,695	-
Total liabilities	\$ 18,094	131,036	225,141	6,429,630

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	County Hospital	Auto License and Use Tax	Other	Total
3,823	31,921	3,927	17,155	190,059	62,039	458,050
-	-	-	-	-	-	18,094
668	6,379	484	3,065	-	4	27,132
310,000	2,228,000	288,000	1,252,000	-	1,000	10,699,000
-	-	-	-	-	85,479	85,479
-	-	-	-	-	9,924	9,924
-	-	-	-	-	19	168
314,491	2,266,300	292,411	1,272,220	190,059	158,465	11,297,847
-	-	-	-	6,801	439	7,240
-	-	-	-	-	-	1,294
314,491	2,266,300	292,411	1,272,220	183,258	129,932	11,248,524
-	-	-	-	-	28,094	28,094
-	-	-	-	-	-	12,695
314,491	2,266,300	292,411	1,272,220	190,059	158,465	11,297,847

Adair County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2011

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 22,116	120,166	233,956	6,025,846
Additions:				
Property and other county tax	-	130,665	163,966	6,370,493
State tax credits	-	5,439	7,636	269,638
Office fees and collections	205,616	-	-	-
Electronic transaction fees	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	82,017	-	-	-
Miscellaneous	-	-	655	-
Total additions	287,633	136,104	172,257	6,640,131
Deductions:				
Agency remittances:				
To other funds	96,532	-	-	-
To other governments	113,106	125,234	181,072	6,236,347
Trusts paid out	82,017	-	-	-
Total deductions	291,655	125,234	181,072	6,236,347
Balances end of year	\$ 18,094	131,036	225,141	6,429,630

See accompanying independent auditor's report.

Community Colleges	Corpora- tions	Townships	County Hospital	Auto License and Use Tax	Other	Total
264,868	2,389,076	276,991	1,197,555	221,153	163,856	10,915,583
311,628	2,084,074	287,827	1,264,527	-	1,356	10,614,536
12,106	79,509	12,904	54,023	-	62	441,317
-	-	-	-	-	-	205,616
-	-	-	-	-	5,117	5,117
-	-	-	-	2,459,573	-	2,459,573
-	-	-	-	-	16,519	16,519
-	-	-	-	-	93,607	175,624
-	-	-	-	-	57,939	58,594
323,734	2,163,583	300,731	1,318,550	2,459,573	174,600	13,976,896
-	-	-	-	90,244	-	186,776
274,111	2,286,359	285,311	1,243,885	2,400,423	179,991	13,325,839
-	-	-	-	-	-	82,017
274,111	2,286,359	285,311	1,243,885	2,490,667	179,991	13,594,632
314,491	2,266,300	292,411	1,272,220	190,059	158,465	11,297,847

Adair County

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

For the Last Ten Years

	2011	2010	2009	2008
Revenues:				
Property and other county tax	\$ 3,348,513	3,167,982	3,059,585	2,940,051
Tax increment financing	-	-	155,821	224,152
Local option sales tax	382,925	359,998	389,100	384,633
Interest and penalty on property tax	40,603	36,663	32,615	31,970
Intergovernmental	4,514,671	3,406,128	4,056,407	3,570,799
Licenses and permits	13,045	11,581	10,785	7,996
Charges for service	218,616	202,184	192,838	209,970
Use of money and property	141,667	115,319	143,624	168,860
Miscellaneous	47,221	65,442	58,841	57,627
Total	\$ 8,707,261	7,365,297	8,099,616	7,596,058
Expenditures:				
Operating:				
Public safety and legal services	\$ 1,032,605	922,347	911,956	872,781
Physical health and social services	254,101	285,962	211,656	196,164
Mental health	830,960	723,834	822,903	899,924
County environment and education	395,070	349,061	356,852	302,639
Roads and transportation	4,398,859	3,317,301	3,225,904	3,049,285
Governmental services to residents	264,392	258,019	241,661	192,932
Administration	730,973	637,063	631,016	652,064
Debt service	65,313	3,180	310,430	236,213
Capital projects	2,568,105	235,048	915,695	207,174
Total	\$ 10,540,378	6,731,815	7,628,073	6,609,176

See accompanying independent auditor's report.

Modified Accrual Basis					
2007	2006	2005	2004	2003	2002
2,787,863	2,811,648	2,759,307	2,529,614	2,406,413	2,302,360
228,134	197,312	177,752	131,004	93,929	63,977
331,171	288,283	-	-	-	-
24,795	30,144	36,769	30,289	30,345	30,068
3,253,022	3,698,104	3,260,303	3,165,275	3,215,237	3,365,886
5,892	8,773	7,082	9,030	7,572	6,717
187,939	194,725	189,774	224,647	167,700	159,442
192,220	145,577	86,316	111,041	148,491	222,016
59,213	56,182	59,825	51,068	36,438	26,973
7,070,249	7,430,748	6,577,128	6,251,968	6,106,125	6,177,439
848,714	838,304	886,203	819,585	764,704	757,693
205,790	187,905	199,768	246,061	226,891	246,771
832,900	738,628	622,373	638,398	711,682	712,624
297,218	282,131	274,487	304,014	328,902	368,066
3,208,317	3,689,971	3,229,715	3,471,194	3,429,358	3,306,388
208,987	283,523	256,920	220,558	237,891	239,767
534,470	532,093	512,160	517,903	492,307	494,149
392,157	204,537	166,302	187,774	131,275	134,048
511,154	707,302	299,472	109,285	296,527	706,042
7,039,707	7,464,394	6,447,400	6,514,772	6,619,537	6,965,548

Schedule 6

Adair County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Natural Resources Conservation Service:			
Emergency Watershed Protection Program	10.923	EWP(69-6114-10-03)	<u>\$ 382,265</u>
U.S. Department of Labor:			
ARRA - Employee Benefits Security Administration (EBSA)	17.151		<u>3,868</u>
Total direct:			<u>386,133</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		<u>1,900</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS-C001(74)-8J-01	<u>7,221</u>
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Public Health Emergency Preparedness	93.069	5880BT01	3,688
Public Health Emergency Preparedness	93.069	5881BT01	9,450
Public Health Emergency Preparedness	93.069	5881BT301	<u>14,692</u>
			<u>27,830</u>
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Refugee and Entrant Assistance_State Administered Programs	93.566		<u>1</u>
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		<u>463</u>
Foster Care_Title IV-E	93.658		<u>753</u>
Adoption Assistance	93.659		<u>183</u>
Children's Health Insurance Program	93.767		<u>9</u>
Medical Assistance Program	93.778		<u>1,822</u>
Social Services Block Grant	93.667		<u>649</u>
Social Services Block Grant	93.667		<u>30,681</u>
			<u>31,330</u>

Adair County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect (continued):			
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1763 DR IA	149,545
Emergency Management Performance Grants	97.042	2010EMPG	2,639
Emergency Management Performance Grants	97.042	2011EMPG	9,422
			<u>12,061</u>
Southwest Iowa Planning Council:			
Homeland Security Grant Program	97.067		678
Total indirect			<u>233,796</u>
Total			<u>\$ 619,929</u>

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

See accompanying independent auditor's report.

Adair County



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA

Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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

To the Officials of 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, 2011, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated October 26, 2011. 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 and Questioned Costs, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses.

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 deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

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 which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2011 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 and Questioned Costs. 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, including federal awarding agencies and pass-through entities, and 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 26, 2011

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

Adair County



OFFICE OF AUDITOR OF STATE
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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Officials of Adair County:

Compliance

We have audited Adair County, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2011. Adair County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Adair County's management. Our responsibility is to express an opinion on Adair County's compliance based on our audit.

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

In our opinion, Adair County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Adair County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Adair County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Adair County's internal control over compliance.

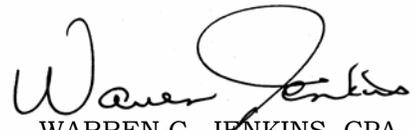
A deficiency in the County's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance we consider to be a significant deficiency which is described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Adair County's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the County's response, we did not audit Adair County's response and, accordingly, we express no opinion on it.

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, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 26, 2011

Adair County
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements and are considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.923 – Emergency Watershed Protection Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Adair County did not qualify as a low-risk auditee.

Adair County

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Financial Reporting – During the audit, we identified material amounts of receivables, payables and prepaid expenses 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, payables and prepaid expenses are identified and included in the County’s financial statements.

Response – The County Auditor sends either a memo or email to all department heads reminding them to indicate any and all receivables prior to the end of the fiscal year. Also, the County Auditor’s Office reviews claims for payables and the County Treasurer’s Office reviews all deposits for receivables.

Conclusion – Response accepted.

II-B-11 Prepaid Purchases – During the year ended June 30, 2011, the County paid for equipment to be installed at the Public Safety Center before receiving the equipment.

Recommendation – Claims for goods should only be paid when goods have been received.

Response – The goods purchased were for the new public safety center which is in the process of being constructed. Due to lack of storage space, the Company the goods were purchased from agreed to store the goods for the County until the new facility is complete enough to store the goods. Also, purchasing the goods prior to June 30, 2011 and having the Company store the goods saved the County a considerable amount of money. The County will refrain from this process in the future.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Adair County

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.923: Emergency Watershed Protection Program
Pass-through Agency Number: EWP-69-6114-10-03
Federal Award Year: 2011
U.S. Department of Agriculture

III-A-11 Subcontract Provisions – In accordance with the grant agreement, the contractor is required to include an equal opportunity clause in every subcontract unless exempted by the rules, regulations or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order No. 11246 of September 24, 1965. The County did not properly include this clause in subcontract agreements.

Recommendation – The County should implement procedures to ensure contracts and agreements include all required provisions.

Response – An effort will be made by the Secondary Roads Department to implement procedures to ensure contracts and agreements include all required provisions in the future.

Conclusion – Response accepted.

Adair County

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the debt service function. Also, disbursements in certain departments exceeded the amounts appropriated prior to appropriation amendments by the Board of Supervisors.

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 Adair County Board of Supervisors will make every attempt in the future to comply with Iowa Code Chapter 331.435. The Board will also use the authority granted in Chapter 331.434(6) of the Code of Iowa when appropriations need to be increased or decreased and will not exceed the function budget.

Conclusion – Response accepted.

IV-B-11 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-11 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-D-11 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	\$ 11,208
Sandy Mitchell, Deputy Auditor, brother-in-law is owner of Don Carlos Insurance	Insurance	2,587
Pam Jensen, Deputy Assessor, brother-in-law is owner of Southwest Iowa Pest Control	Pest control	460
Raedeem Bigelow, General Relief Director, husband is owner of Bigelow Welding	Parts	187

Adair County

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

In accordance with Chapter 331.342(2)(j) of the Code of Iowa, the transactions with R & D Services and Don Carlos Insurance may represent conflicts of interest since the total transactions with each exceeded \$1,500 during the fiscal year.

The transactions with Southwest Iowa Pest Control and Bigelow Welding do not appear to represent conflicts of interest in accordance with Chapter 331.342(2)(j) of the Code of Iowa since the total transactions with each were less than \$1,500 during the fiscal year.

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

Response – The County will consult with the County Attorney. R & D is the only provider of off road diesel in Stuart. Don Carlos Insurance is the agent of record for the County's insurance and has been even prior to the employment of the Deputy Auditor.

Conclusion – Response accepted.

IV-E-11 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.

IV-F-11 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-G-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

IV-H-11 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

IV-I-11 Financial Condition – Although the Debt Service Fund had a positive cash balance at June 30, 2011, on a modified accrual basis, an unassigned fund balance deficit of \$65,563 was reported.

Recommendation – The County should investigate alternatives to eliminate the deficit balance.

Response – The County will eliminate the deficit during fiscal year 2012 through the collection of property tax.

Conclusion – Response accepted.

IV-J-11 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.

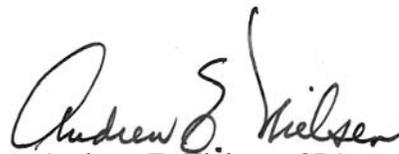
Disbursements during the year ended June 30, 2011 for the County Extension Office did not exceed the amount budgeted.

Adair County

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Tammy A. Hollingsworth, Senior Auditor II
Ainslee M. Barnes, CPA, Staff Auditor
Samantha J. Brincks, CPA, Staff Auditor
Brooke A. Lytle, Assistant Auditor
Ann C. McMinimee, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State