



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
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**NEWS RELEASE**

FOR RELEASE

November 26, 2012

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 \$15,595,991 for the year ended June 30, 2012, which included \$608,958 in tax credits from the state. The County forwarded \$11,551,160 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$4,044,831 of the local tax revenue to finance County operations, a 16% increase over the prior year. Other revenues included charges for service of \$354,369, operating grants, contributions and restricted interest of \$3,563,879, capital grants, contributions and restricted interest of \$1,112,607, local option sales tax of \$393,649, unrestricted investment earnings of \$63,527 and other general revenues of \$43,483.

Expenses for County operations totaled \$8,326,880, a 4% increase over the prior year. Expenses included \$4,321,765 for roads and transportation, \$1,192,808 for public safety and legal services and \$965,012 for mental health.

A copy of the audit report is available for review in the County Auditor's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1210-0001-B00F.pdf>.

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**ADAIR COUNTY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2012**

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**Adair County**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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, 2012, 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.

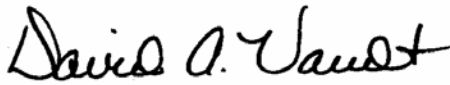
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2012, 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.

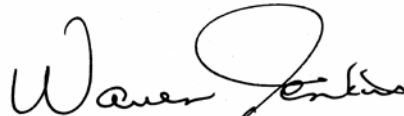
In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2012 on our consideration of Adair County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 13 and 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economical or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion on it or provide any assurance on the required supplementary information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

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, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 7, 2012



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2012. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- Revenues of the County's governmental activities decreased 1.7%, or approximately \$167,000, from fiscal year 2011 to fiscal year 2012. Capital grants, contributions and restricted interest decreased approximately \$981,000, while operating grants, contributions and restricted interest increased approximately \$305,000.
- The County's expenses for governmental activities increased 4.0%, or approximately \$319,000, from fiscal year 2011 to fiscal year 2012. Public safety and legal services expenses increased approximately \$126,000 and mental health expenses increased approximately \$134,000.
- The County's net assets increased 6.1%, or approximately \$1,250,000, from June 30, 2011 to June 30, 2012.

### **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.

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

## **REPORTING THE COUNTY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

The County has three kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, 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 governmental fund financial statements follow the governmental 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 \$20,445,000 to approximately \$21,695,000. The analysis below shows the changes in the net assets of governmental activities from a year ago.

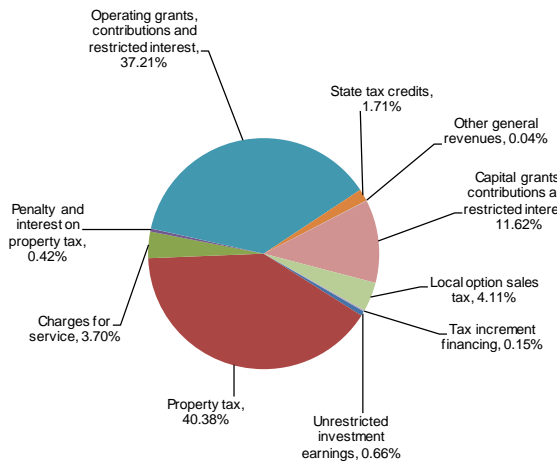
Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2012	2011
Current and other assets	\$ 13,470	13,742
Capital assets	19,716	17,087
Total assets	<u>33,186</u>	<u>30,829</u>
Long-term liabilities	6,053	6,125
Other liabilities	5,438	4,259
Total liabilities	<u>11,491</u>	<u>10,384</u>
Net assets:		
Invested in capital assets, net of related debt	16,826	15,586
Restricted	4,486	4,607
Unrestricted	<u>383</u>	<u>252</u>
Total net assets	<u>\$ 21,695</u>	<u>20,445</u>

Net assets of Adair County's governmental activities increased approximately \$1,250,000 (\$20,445,000 compared to \$21,695,000). The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment). Net assets invested in capital assets increased approximately \$1,240,000. 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 \$121,000, or 2.6%, from fiscal year 2011 to fiscal year 2012. 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 \$383,000. Unrestricted net assets increased approximately \$131,000, or 52.0%, from fiscal year 2011 to fiscal year 2012.

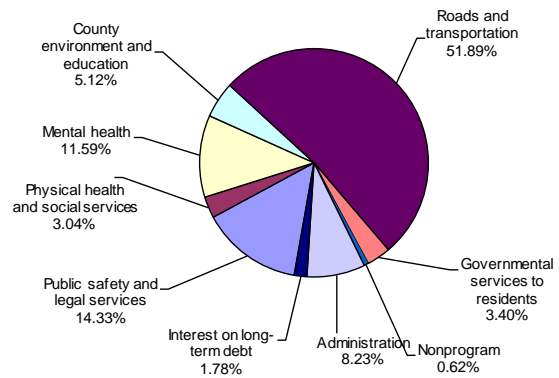
**Changes in Net Assets of Governmental Activities**  
(Expressed in Thousands)

	Year ended June 30,	
	2012	2011
<b>Revenues:</b>		
<b>Program revenues:</b>		
Charges for service	\$ 354	284
Operating grants, contributions and restricted interest	3,564	3,259
Capital grants, contributions and restricted interest	1,113	2,094
<b>General revenues:</b>		
Property tax	3,867	3,346
Tax increment financing	14	-
Penalty and interest on property tax	40	44
State tax credits	164	151
Local option sales tax	394	383
Unrestricted investment earnings	63	79
Gain on disposal of capital assets	-	103
Other general revenues	4	1
<b>Total revenues</b>	<b>9,577</b>	<b>9,744</b>
<b>Program expenses:</b>		
Public safety and legal services	1,193	1,067
Physical health and social services	253	254
Mental health	965	831
County environment and education	426	397
Roads and transportation	4,322	4,354
Governmental services to residents	283	264
Administration	685	696
Nonprogram	52	63
Interest on long-term debt	148	82
<b>Total expenses</b>	<b>8,327</b>	<b>8,008</b>
<b>Increase in net assets</b>	<b>1,250</b>	<b>1,736</b>
<b>Net assets beginning of year</b>	<b>20,445</b>	<b>18,709</b>
<b>Net assets end of year</b>	<b>\$ 21,695</b>	<b>20,445</b>

**Revenues by Source**



**Expenses by Function**



Adair County's net assets of governmental activities increased approximately \$1,250,000 during the year. Revenues for governmental activities decreased approximately \$167,000 from the prior year, with capital grants, contributions and restricted interest decreasing approximately \$981,000, or 46.8%, from the prior year due to more assets contributed to the County in the prior year.

The cost of all governmental activities this year was approximately \$8.3 million compared to approximately \$8.0 million last year. However, as shown in the Statement of Activities on page 17, the amount taxpayers ultimately financed for these activities was only \$3,296,025 because some of the cost was paid by those directly benefited from the programs (\$354,369) or by other governments and organizations which subsidized certain programs with grants and contributions (\$4,676,486). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, decreased in fiscal year 2012 from approximately \$5,637,000 to approximately \$5,031,000. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$4,545,000 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 \$7.6 million, a decrease of approximately \$1.7 million below last year's total of approximately \$9.3 million. The following are reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues exceeded expenditures. The ending fund balance increased approximately \$206,000 from the prior year to approximately \$1,597,000. 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.
- The County has continued to look for ways to effectively manage the cost of mental health services. For fiscal year 2012, the Special Revenue, Mental Health Fund expenditures totaled approximately \$965,000, an increase of 16.1% over the prior year. The ending fund balance decreased from approximately \$233,000 to \$(209,000). The decrease is primarily due to a decrease in property and other County tax and intergovernmental revenues and an increase in expenditures.
- The Special Revenue, Rural Services Fund ending fund balance increased approximately \$74,000 from the prior year to approximately \$345,000. This increase is due to an increase in property and other county tax revenue.
- The Special Revenue, Secondary Roads Fund revenues decreased approximately \$892,000 from the prior year due to Emergency Watershed Protection Program revenues received in the prior year. Expenditures decreased approximately \$509,000 from the prior year due to a decrease in equipment and vehicle purchases. The Special Revenue, Secondary Roads Fund balance at year end decreased approximately \$481,000, or 22.5%, to approximately \$1,652,000.
- The Special Revenue, Urban Renewal Fund ending fund balance decreased from \$0 in the prior year to approximately \$(64,000) due to debt service payments being made prior to collection of tax increment financing revenues. The deficit balance should be eliminated next year.
- The Capital Projects Fund ending fund balance decreased approximately \$1,349,000 from the prior year to approximately \$2,763,000. This decrease is due to expenditures for the Public Safety Building project.

## BUDGETARY HIGHLIGHTS

Over the course of the year, Adair County amended its budget two times. The first amendment was made in January 2012 and increased budgeted receipts approximately \$169,000 and increased disbursements approximately \$2.6 million related to an increase in local secondary roads projects and the construction of the public safety center.

The second amendment was made in May 2012. This amendment increased budgeted receipts approximately \$24,000. The amendment also increased budgeted disbursements approximately \$107,000 related to expenses for data processing, medical examination fees and minor equipment and tools, as well as expenses for services provided from the Mental Health Fund.

The County's receipts were approximately \$741,000 less than budgeted. Intergovernmental receipts were approximately \$858,000 less than budgeted due to mental health funding and bridge replacement funds which were not received.

Total disbursements were approximately \$3,672,000 less than budgeted. Actual disbursements for the capital projects and roads and transportation functions were approximately \$2,563,000 and \$781,000, respectively, less than budgeted. The difference for capital projects was due to the County budgeting/expecting work to be done on several TIF projects which were delayed. Roads and transportation was under budget due to Secondary Roads projects not completed due to timing and bid issues, along with the Secondary Roads department working on TIF projects instead of other projects. Also, due to the mild winter, snow, sand and salt expenses were down significantly.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2012, Adair County had approximately \$19,716,000 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,	
	2012	2011
Land	\$ 671	671
Intangibles, road network	34	34
Construction in progress	175	1,828
Buildings and improvements	3,243	426
Improvements other than buildings	118	100
Equipment and vehicles	3,081	2,811
Infrastructure, road network	12,394	11,217
Total	<u>\$ 19,716</u>	<u>17,087</u>
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation	\$ 1,084	
Construction projects	1,812	
Purchase of Secondary Roads vehicles and equipment	471	
Total	<u>\$ 3,367</u>	

The County had depreciation expense of \$917,365 in fiscal year 2012 and total accumulated depreciation of approximately \$4,825,000 at June 30, 2012. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

## Long-Term Debt

At June 30, 2012, Adair County had \$5,885,000 of general obligation bonds outstanding, compared to \$6,000,000 at June 30, 2011.

	Outstanding Debt of Governmental Activities at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2012	2011
General obligation bonds	\$ 5,885	\$ 6,000

Adair County's general obligation debt carries the A1 rating assigned by Moody's Investors Service, a national rating agency. The Constitution of the State of Iowa limits the amount of debt counties can issue to 5% 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 \$36.9 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 2013 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 has generated 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 ended during fiscal year 2012. However, the County will use the ending balance of the Special Revenue, Local Option Sales Tax Fund of approximately \$1,265,000 at June 30, 2012, to continue making bridge improvements.

Amounts available for appropriation in the operating budget are approximately \$10.3 million, a decrease of 24.0% from the final fiscal year 2012 budget.

If these estimates are realized, the County's budgetary operating balance is expected to decrease to approximately \$3,827,000 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.

**Adair County**



## **Basic Financial Statements**

**Exhibit A**

Adair County  
Statement of Net Assets  
June 30, 2012

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 7,428,476
Receivables:	
Property tax:	
Delinquent	5,440
Succeeding year	4,165,000
Succeeding year tax increment financing	690,000
Interest and penalty on property tax	12,746
Accounts	18,563
Accrued interest	4,887
Due from other governments	640,718
Inventories	316,877
Prepaid items	187,043
Capital assets (net of accumulated depreciation)	19,716,005
<b>Total assets</b>	<u>33,185,755</u>
<b>Liabilities</b>	
Accounts payable	141,720
Accrued interest payable	11,445
Salaries and benefits payable	77,368
Due to other governments	352,121
Deferred revenue:	
Succeeding year property tax	4,165,000
Succeeding year tax increment financing	690,000
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	620,000
Compensated absences	81,457
Portion due or payable after one year:	
General obligation bonds	5,265,000
Compensated absences	84,587
Net OPEB liability	2,279
<b>Total liabilities</b>	<u>11,490,977</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	16,826,085
Restricted for:	
Supplemental levy purposes	300,024
Rural services purposes	345,555
Secondary roads purposes	1,912,057
Conservation land acquisition purposes	369,659
SIRWA water grid	67,209
Resource enhancement and protection	185,179
Bridge maintenance and replacement	1,265,251
Other purposes	40,846
Unrestricted	382,913
<b>Total net assets</b>	<u>\$ 21,694,778</u>

See notes to financial statements.

Adair County

Statement of Activities

Year ended June 30, 2012

	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	
<b>Functions/Programs:</b>					
Governmental activities:					
Public safety and legal services	\$ 1,192,808	62,694	15,773	7,587	(1,106,754)
Physical health and social services	253,437	27,045	71,958	-	(154,434)
Mental health	965,012	-	307,966	-	(657,046)
County environment and education	426,101	33,569	24,448	-	(368,084)
Roads and transportation	4,321,765	41,715	3,083,772	1,105,020	(91,258)
Governmental services to residents	283,325	157,382	43	-	(125,900)
Administration	684,661	31,964	4,590	-	(648,107)
Nonprogram	52,256	-	55,003	-	2,747
Interest on long-term debt	147,515	-	326	-	(147,189)
<b>Total</b>	<b>\$ 8,326,880</b>	<b>354,369</b>	<b>3,563,879</b>	<b>1,112,607</b>	<b>(3,296,025)</b>
<b>General Revenues:</b>					
Property and other county tax levied for:					
General purposes					3,610,422
Debt service					256,759
Tax increment financing					13,541
Penalty and interest on property tax					39,807
State tax credits					164,109
Local option sales tax					393,649
Unrestricted investment earnings					63,527
Miscellaneous					3,676
<b>Total general revenues</b>					<b>4,545,490</b>
Change in net assets					1,249,465
Net assets beginning of year					20,445,313
Net assets end of year					<b>\$ 21,694,778</b>

See notes to financial statements.

Adair County  
Balance Sheet  
Governmental Funds

June 30, 2012

	General	Special Revenue	
		Mental Health	Rural Services
<b>Assets</b>			
Cash and pooled investments	\$ 1,431,495	114,556	357,628
Receivables:			
Property tax:			
Delinquent	4,185	402	853
Succeeding year	2,277,000	290,000	1,310,000
Succeeding year tax increment financing	-	-	-
Interest and penalty on property tax	12,746	-	-
Accounts	7,973	-	395
Accrued interest	4,820	-	-
Due from other funds	-	-	-
Due from other governments	30,617	-	-
Interfund receivable	69,900	-	-
Inventories	-	-	-
Prepaid items	115,885	-	-
<b>Total assets</b>	<b>\$ 3,954,621</b>	<b>404,958</b>	<b>1,668,876</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 8,575	11,959	614
Salaries and benefits payable	25,069	-	6,976
Due to other funds	2,247	-	-
Due to other governments	27,340	311,676	5,731
Interfund payable	-	-	-
Deferred revenue:			
Succeeding year property tax	2,277,000	290,000	1,310,000
Succeeding year tax increment financing	-	-	-
Other	16,931	402	853
Total liabilities	2,357,162	614,037	1,324,174
Fund balances:			
Nonexpendable:			
Inventories	-	-	-
Prepaid items	115,885	-	-
Restricted for:			
Supplemental levy purposes	303,153	-	-
Rural services purposes	-	-	344,702
Secondary roads purposes	-	-	-
Conservation land acquisition/capital improvements	369,659	-	-
Debt service	-	-	-
Capital projects	-	-	-
SIRWA water grid	67,209	-	-
Resource enhancement and protection	-	-	-
Bridge maintenance and replacement	-	-	-
Other purposes	-	-	-
Committed for Courthouse windows	58,750	-	-
Assigned for:			
Courthouse roof	50,000	-	-
Elevator repair/replacement	30,000	-	-
Unassigned	602,803	(209,079)	-
Total fund balances	1,597,459	(209,079)	344,702
<b>Total liabilities and fund balances</b>	<b>\$ 3,954,621</b>	<b>404,958</b>	<b>1,668,876</b>

See notes to financial statements.

Secondary Roads	Urban Renewal	Capital Projects	Nonmajor	Total
1,240,540	1,819	2,765,866	1,434,180	7,346,084
-	-	-	-	5,440
-	-	-	288,000	4,165,000
-	690,000	-	-	690,000
-	-	-	-	12,746
10,195	-	-	-	18,563
-	-	-	67	4,887
2,247	-	-	-	2,247
548,942	-	-	61,159	640,718
-	-	-	-	69,900
316,877	-	-	-	316,877
71,158	-	-	-	187,043
<b>2,189,959</b>	<b>691,819</b>	<b>2,765,866</b>	<b>1,783,406</b>	<b>13,459,505</b>
117,613	-	2,959	-	141,720
45,323	-	-	-	77,368
-	-	-	-	2,247
7,374	-	-	-	352,121
-	66,000	-	3,900	69,900
-	-	-	288,000	4,165,000
-	690,000	-	-	690,000
367,451	-	-	-	385,637
<b>537,761</b>	<b>756,000</b>	<b>2,959</b>	<b>291,900</b>	<b>5,883,993</b>
316,877	-	-	-	316,877
71,158	-	-	-	187,043
-	-	-	-	303,153
-	-	-	-	344,702
1,264,163	-	-	-	1,264,163
-	-	-	-	369,659
-	-	-	230	230
-	-	2,762,907	-	2,762,907
-	-	-	-	67,209
-	-	-	185,179	185,179
-	-	-	1,265,251	1,265,251
-	-	-	40,846	40,846
-	-	-	-	58,750
-	-	-	-	50,000
-	-	-	-	30,000
-	(64,181)	-	-	329,543
<b>1,652,198</b>	<b>(64,181)</b>	<b>2,762,907</b>	<b>1,491,506</b>	<b>7,575,512</b>
<b>2,189,959</b>	<b>691,819</b>	<b>2,765,866</b>	<b>1,783,406</b>	<b>13,459,505</b>

**Adair County**

Adair County

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

June 30, 2012

**Total governmental fund balances (page 19)** \$ 7,575,512

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$24,540,976 and the accumulated depreciation is \$4,824,971. 19,716,005

Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the funds. 385,637

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. 82,392

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. (6,064,768)

**Net assets of governmental activities (page 16)** \$21,694,778

See notes to financial statements.

Adair County

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

Year ended June 30, 2012

	Special Revenue		
	General	Mental Health	Rural Services
<b>Revenues:</b>			
Property and other county tax	\$ 2,148,133	206,602	1,258,260
Tax increment financing	-	-	-
Local option sales tax	-	-	-
Interest and penalty on property tax	38,153	-	-
Intergovernmental	193,469	313,042	52,834
Licenses and permits	9,630	-	7,185
Charges for service	214,389	-	210
Use of money and property	76,352	-	-
Miscellaneous	43,510	3,744	-
Total revenues	<u>2,723,636</u>	<u>523,388</u>	<u>1,318,489</u>
<b>Expenditures:</b>			
Operating:			
Public safety and legal services	992,218	-	160,692
Physical health and social services	235,294	-	18,143
Mental health	-	965,012	-
County environment and education	329,126	-	113,230
Roads and transportation	-	-	196,225
Governmental services to residents	280,081	-	3,497
Administration	689,376	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	<u>2,526,095</u>	<u>965,012</u>	<u>491,787</u>
Excess (deficiency) of revenues over (under) expenditures	<u>197,541</u>	<u>(441,624)</u>	<u>826,702</u>
<b>Other financing sources (uses):</b>			
Sale of capital assets	2,011	-	-
Operating transfers in	6,283	-	-
Operating transfers out	-	-	(752,865)
Total other financing sources (uses)	<u>8,294</u>	<u>-</u>	<u>(752,865)</u>
Net change in fund balances	205,835	(441,624)	73,837
Fund balances beginning of year	1,391,624	232,545	270,865
Fund balances end of year	<u>\$ 1,597,459</u>	<u>(209,079)</u>	<u>344,702</u>

See notes to financial statements.



Secondary Roads	Urban Renewal	Capital Projects	Nonmajor	Total
-	-	-	256,759	3,869,754
-	13,541	-	-	13,541
-	-	-	393,649	393,649
-	-	-	-	38,153
2,765,414	-	-	21,159	3,345,918
2,850	-	-	-	19,665
-	-	-	2,086	216,685
-	61	28,690	6,795	111,898
52,331	-	-	25,996	125,581
2,820,595	13,602	28,690	706,444	8,134,844
-	-	-	5,025	1,157,935
-	-	-	-	253,437
-	-	-	-	965,012
-	-	-	-	442,356
3,703,980	-	-	-	3,900,205
-	-	-	-	283,578
-	-	-	-	689,376
-	66,000	-	202,250	268,250
781,262	-	1,167,849	-	1,949,111
4,485,242	66,000	1,167,849	207,275	9,909,260
(1,664,647)	(52,398)	(1,139,159)	499,169	(1,774,416)
5,900	-	-	-	7,911
1,177,431	-	-	-	1,183,714
-	(11,783)	(209,621)	(209,445)	(1,183,714)
1,183,331	(11,783)	(209,621)	(209,445)	7,911
(481,316)	(64,181)	(1,348,780)	289,724	(1,766,505)
2,133,514	-	4,111,687	1,201,782	9,342,017
1,652,198	(64,181)	2,762,907	1,491,506	7,575,512

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, 2012

**Net change in fund balances - Total governmental funds (page 23)** \$(1,766,505)

***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	\$ 2,472,772	
Capital assets contributed by the Iowa Department of	1,083,917	
Depreciation expense	<u>(917,365)</u>	2,639,324

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as a increase in financial resources. (10,245)

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	(2,573)	
Other	<u>304,825</u>	302,252

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 115,000

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	(42,652)	
Interest on long-term debt	5,735	
Other postemployment benefits	<u>(669)</u>	(37,586)

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. 7,225

**Change in net assets of governmental activities (page 17)** \$ 1,249,465

See notes to financial statements.

Adair County  
Statement of Net Assets  
Proprietary Fund  
June 30, 2012

	<u>Internal Service - Employee Health Insurance</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 82,392
<b>Liabilities</b>	
None	<u>-</u>
<b>Net Assets</b>	
Unrestricted	<u>\$ 82,392</u>

See notes to financial statements.

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

Year ended June 30, 2012

		<u>Internal Service - Employee Health Insurance</u>
Operating revenues:		
Contributions from operating funds		\$ 20,789
Premium reimbursements from employees and others		33,525
Miscellaneous		689
Total operating revenues		<u>55,003</u>
Operating expenses:		
Medical claims	\$ 10,098	
Insurance premiums	<u>38,009</u>	<u>48,107</u>
Operating income		6,896
Non-operating revenues:		
Interest income		<u>329</u>
Net income		7,225
Net assets beginning of year		<u>75,167</u>
Net assets end of year		<u><u>\$ 82,392</u></u>
See notes to financial statements.		

Adair County  
Statement of Cash Flows  
Proprietary Fund  
Year ended June 30, 2012

	Internal Service - Employee Health Insurance
Cash flows from operating activities:	
Cash received from operating funds	\$ 20,789
Premium reimbursements from employees and others	33,525
Miscellaneous	1,656
Cash paid to suppliers for services	(46,631)
Net cash provided by operating activities	9,339
Cash flows from investing activities:	
Interest on investments	329
Net increase in cash and cash equivalents	9,668
Cash and cash equivalents beginning of year	72,724
Cash and cash equivalents end of year	\$ 82,392
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 6,896
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in due from other governments	967
Decrease in prepaid items	3,476
Decrease in accounts payable	(2,000)
Net cash provided by operating activities	\$ 9,339

See notes to financial statements.

Adair County  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2012

**Assets**

Cash and pooled investments:	
County Treasurer	\$ 501,557
Other County officials	20,865
Receivables:	
Property tax:	
Delinquent	24,783
Succeeding year	11,189,000
Special assessments	83,138
Due from other governments	11,186
Prepaid expenses	6,668
<b>Total assets</b>	<u>11,837,197</u>

**Liabilities**

Accounts payable	629
Salaries and benefits payable	1,359
Due to other governments	11,782,361
Trusts payable	34,045
Compensated absences	18,803
<b>Total liabilities</b>	<u>11,837,197</u>

<b>Net assets</b>	<u>\$ -</u>
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See notes to financial statements.

Adair County

Notes to Financial Statements

June 30, 2012

**(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 Urban Renewal Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2011.

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, 2012, 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 property tax receivable, succeeding year tax increment financing 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 and succeeding year tax increment financing receivable which 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, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund and the Special Revenue, Secondary Roads Fund.

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

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

Fund Equity – In the governmental fund financial statements, 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.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Board of Supervisors through resolution prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Supervisors removes or changes the specified use by taking the same action it employed to commit those amounts.

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

Unassigned – All amounts not included in the preceding 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, 2012 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 \$10,557 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, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue:		
Secondary Roads	General	\$ 2,247

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, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Urban Renewal	\$ 66,000
	Debt Service	3,900
Total		\$ 69,900

The General Fund loaned \$66,000 to the Special Revenue, Urban Renewal Fund and \$3,900 to the Debt Service Fund to make the scheduled interest payments on the general obligation bonds. The amounts will be repaid in fiscal year 2013.

**(4) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal	\$ 6,283
Special Revenue:	Special Revenue:	
Secondary Roads	Rural Services	752,865
	Urban Renewal	5,500
	Local Option Sales Tax	209,445
	Capital Projects	209,621
Total		\$ 1,183,714

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, 2012 was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>End of</u>
	<u>of Year</u>			<u>Year</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 671,067	-	-	671,067
Intangibles, road network	34,220	-	-	34,220
Construction in progress	1,827,893	2,895,844	4,548,979	174,758
Total capital assets not being depreciated	<u>2,533,180</u>	<u>2,895,844</u>	<u>4,548,979</u>	<u>880,045</u>
Capital assets being depreciated:				
Buildings	663,380	2,898,834	-	3,562,214
Improvements other than buildings	206,599	25,709	6,624	225,684
Equipment and vehicles	5,135,645	636,936	140,278	5,632,303
Infrastructure, road network	12,590,585	1,650,145	-	14,240,730
Total capital assets being depreciated	<u>18,596,209</u>	<u>5,211,624</u>	<u>146,902</u>	<u>23,660,931</u>
Less accumulated depreciation for:				
Buildings	238,127	81,111	-	319,238
Improvements other than buildings	106,491	7,345	5,828	108,008
Equipment and vehicles	2,324,394	355,843	129,029	2,551,208
Infrastructure, road network	1,373,451	473,066	-	1,846,517
Total accumulated depreciation	<u>4,042,463</u>	<u>917,365</u>	<u>134,857</u>	<u>4,824,971</u>
Total capital assets being depreciated, net	<u>14,553,746</u>	<u>4,294,259</u>	<u>12,045</u>	<u>18,835,960</u>
Governmental activities capital assets, net	<u>\$17,086,926</u>	<u>7,190,103</u>	<u>4,561,024</u>	<u>19,716,005</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 109,363
County environment and education	30,345
Roads and transportation	762,778
Administration	14,879
Total depreciation expense - governmental activities	<u>\$ 917,365</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>\$ 27,340</u>
Special Revenue:		
Mental Health	Services	311,676
Rural Services	Services	5,731
Secondary Roads	Services	<u>7,374</u>
		<u>324,781</u>
Total for governmental funds		<u><u>\$ 352,121</u></u>
Agency:		
County Assessor	Collections	\$ 229,867
Schools		6,462,234
Community Colleges		334,544
Corporations		2,610,128
Townships		313,687
County Hospital		1,335,436
Auto License and Use Tax		204,806
All other		<u>291,659</u>
Total for agency funds		<u><u>\$ 11,782,361</u></u>

**(7) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	<u>General</u>		<u>Net</u>	
	<u>Obligation</u>	<u>Compensated</u>	<u>OPEB</u>	
	<u>Bonds</u>	<u>Absences</u>	<u>Liability</u>	<u>Total</u>
Balance beginning of year	\$ 6,000,000	123,392	1,610	6,125,002
Increases	-	159,102	10,507	169,609
Decreases	115,000	116,450	9,838	241,288
Balance end of year	<u>\$ 5,885,000</u>	<u>166,044</u>	<u>2,279</u>	<u>6,053,323</u>
Due within one year	<u>\$ 620,000</u>	<u>81,457</u>	<u>-</u>	<u>701,457</u>



A summary of the County's June 30, 2012 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Series 2010		
	Issued Sept 1, 2010		
	Interest Rates	Principal	Interest
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	2.25	130,000	74,650
2018-2022	2.25 - 3.00	725,000	324,225
2023-2027	3.00 - 3.50	895,000	209,250
2028-2030	3.50 - 3.75	645,000	48,613
Total		<u>\$ 2,885,000</u>	<u>980,038</u>

Year Ending June 30,	Series 2011			Total	
	Issued Apr 28, 2011				
	Interest Rates	Principal	Interest	Principal	Interest
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		-	-	130,000	74,650
2018-2022		-	-	725,000	324,225
2023-2027		-	-	895,000	209,250
2028-2030		-	-	645,000	48,613
Total		<u>\$ 3,000,000</u>	<u>161,000</u>	<u>5,885,000</u>	<u>1,141,038</u>

**(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 5.38% of their annual covered salary and the County is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$192,123, \$150,495 and \$137,953, 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, 2012, 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	72
Adjustment to annual required contribution	(257)
Annual OPEB cost	10,507
Contributions made	(9,838)
Increase in net OPEB obligation	669
Net OPEB obligation beginning of year	1,610
Net OPEB obligation end of year	<u>\$ 2,279</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, 2012.

For the year ended June 30, 2012, the County contributed \$9,838 to the medical plan. Plan members eligible for benefits contributed \$13,850, or 58.5% 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, 2012 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
2012	10,507	93.6%	2,279

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, 2012, 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 \$2,361,000 and the ratio of the UAAL to covered payroll was 4.5%. As of June 30, 2012, there were no trust fund assets.

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

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

As of the July 1, 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 663 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% 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, 2012 were \$115,424.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. 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, 2012, no liability has been recorded in the County's financial statements. As of June 30, 2012, 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% 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 \$250,000, 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, 2012 was \$20,789.

The County was not required to obtain an actuarial report for the period ended June 30, 2012 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, 2012. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 2,000
Incurred claims	10,098
Payments on claims during the fiscal year	<u>(12,098)</u>
Unpaid claims end of year	<u>\$ -</u>

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

On May 25, 2005, the County entered into a 28E agreement with SIRWA and nine other counties to provide joint financing of certain water development facilities at Gooseberry Lake to enable SIRWA to withdraw water sufficient to supply treated water to portions of SIRWA's rural water distribution system. Pursuant to the agreement, SIRWA planned to obtain a loan of \$500,000 to cover the initial costs. Liability for repayment of the loan was to be borne by the respective parties (Counties) to the agreement. Adair County's share of the debt was 12.5%, or \$62,500. Each participant was required to establish a SIRWA Grid Sinking and Reserve Fund, into which there shall be appropriated from the County'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.

**(13) Financial Condition**

The Special Revenue, Urban Renewal Fund reported a fund balance deficit of \$64,181 at June 30, 2012. The County plans to eliminate the deficit through the collection of tax increment financing revenues in fiscal year 2013.

The Special Revenue, Mental Health Fund reported a fund balance deficit of \$209,079 at June 30, 2012. The County plans to eliminate the deficit through future state funding.

**(14) Special Investigation**

The County requested the Office of Auditor of State to perform a special investigation of the County as a result of concerns identified with the County's Secondary Roads Department. The special investigation is being performed for the period December 5, 2001 through December 31, 2011.

Copies of the special investigation report will be filed with the Adair County Attorney's Office, the Division of Criminal Investigation and the Attorney General's office when completed.

**Adair County**

**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, 2012

	Actual	Budgeted Amounts		Final to
		Original	Final	Actual Variance
<b>Receipts:</b>				
Property and other county tax	\$ 4,256,571	4,276,408	4,276,408	(19,837)
Interest and penalty on property tax	38,153	27,000	27,000	11,153
Intergovernmental	3,518,396	4,223,392	4,376,342	(857,946)
Licenses and permits	18,235	14,100	14,100	4,135
Charges for service	215,353	175,445	198,878	16,475
Use of money and property	112,964	99,006	99,006	13,958
Miscellaneous	117,678	9,850	26,486	91,192
Total receipts	8,277,350	8,825,201	9,018,220	(740,870)
<b>Disbursements:</b>				
Public safety and legal services	1,151,852	1,276,910	1,314,354	162,502
Physical health and social services	250,758	292,281	293,041	42,283
Mental health	799,031	758,034	826,534	27,503
County environment and education	443,589	455,575	455,575	11,986
Roads and transportation	3,981,891	3,709,926	4,762,582	780,691
Governmental services to residents	279,894	297,160	299,285	19,391
Administration	694,211	738,159	759,619	65,408
Debt service	268,250	202,250	268,250	-
Capital projects	1,987,942	3,100,380	4,550,572	2,562,630
Total disbursements	9,857,418	10,830,675	13,529,812	3,672,394
Deficiency of receipts under disbursements	(1,580,068)	(2,005,474)	(4,511,592)	2,931,524
Other financing sources, net	7,911	-	2,011	5,900
Deficiency of receipts and other financing sources under disbursements and other financing uses	(1,572,157)	(2,005,474)	(4,509,581)	2,937,424
Balance beginning of year	8,918,241	7,277,152	10,917,343	(1,999,102)
Balance end of year	\$ 7,346,084	5,271,678	6,407,762	938,322

See accompanying independent auditor's report.



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Adair County

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2012

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 8,277,350	(142,506)	8,134,844
Expenditures	9,857,418	51,842	9,909,260
Net	(1,580,068)	(194,348)	(1,774,416)
Other financing sources, net	7,911	-	7,911
Beginning fund balances	8,918,241	423,776	9,342,017
Ending fund balances	\$ 7,346,084	229,428	7,575,512

See accompanying independent auditor's report.

Adair County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2012

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, two budget amendments increased budgeted disbursements by \$2,699,137. 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, 2012, disbursements did not exceed the amounts budgeted by function. However, a department exceeded the amount appropriated prior to an appropriation amendment.

Adair County

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

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	-	\$ 107	107	0.00%	\$ 1,926	5.6%
2011	Jul 1, 2009	-	107	107	0.00	2,207	4.8
2012	Jul 1, 2009	-	107	107	0.00	2,361	4.5

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**

**Supplementary Information**

Adair County  
 Combining Balance Sheet  
 Nonmajor Governmental Funds

June 30, 2012

	Resource Enhance- ment and Protection	County Recorder's Records Management	Special Sheriff's Reserve
<b>Assets</b>			
Cash and pooled investments	\$ 185,112	10,820	4,236
Receivables:			
Succeeding year property tax	-	-	-
Accrued interest	67	-	-
Due from other governments	-	205	-
<b>Total assets</b>	<b>\$ 185,179</b>	<b>11,025</b>	<b>4,236</b>
<b>Liabilities and Fund Equity</b>			
Liabilities:			
Interfund payable	\$ -	-	-
Deferred revenue:			
Succeeding year property tax	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balances:			
Restricted for:			
Debt service	-	-	-
Resource enhancement and protection	185,179	-	-
Bridge maintenance and replacement	-	-	-
Other purposes	-	11,025	4,236
Total fund balances	185,179	11,025	4,236
<b>Total liabilities and fund balances</b>	<b>\$ 185,179</b>	<b>11,025</b>	<b>4,236</b>

See accompanying independent auditor's report.

Revenue			
Special Law Enforcement	Local Option Sales Tax	Debt Service	Total
25,585	1,204,297	4,130	1,434,180
-	-	288,000	288,000
-	-	-	67
-	60,954	-	61,159
25,585	1,265,251	292,130	1,783,406
-	-	3,900	3,900
-	-	288,000	288,000
-	-	291,900	291,900
-	-	230	230
-	-	-	185,179
-	1,265,251	-	1,265,251
25,585	-	-	40,846
25,585	1,265,251	230	1,491,506
25,585	1,265,251	292,130	1,783,406

Adair County

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

Year ended June 30, 2012

	Resource	County	Special
	Enhance- ment and Protection	Recorder's Records Management	Sheriff's Reserve
Revenues:			
Property tax	\$ -	-	-
Local option sales tax	-	-	-
Intergovernmental	9,459	-	950
Charges for service	-	2,086	-
Use of money and property	1,420	43	18
Miscellaneous	-	-	800
Total revenues	10,879	2,129	1,768
Expenditures:			
Operating:			
Public safety and legal services	-	-	845
Debt service	-	-	-
Total expenditures	-	-	845
Excess of revenues over expenditures	10,879	2,129	923
Other financing uses:			
Operating transfers out	-	-	-
Excess of revenues over expenditures and other financing uses	10,879	2,129	923
Fund balances beginning of year	174,300	8,896	3,313
Fund balances end of year	\$ 185,179	11,025	4,236

See accompanying independent auditor's report.



Revenue			
Special Law Enforcement	Local Option Sales Tax	Debt Service	Total
-	-	256,759	256,759
-	393,649	-	393,649
-	-	10,750	21,159
-	-	-	2,086
87	4,961	266	6,795
25,196	-	-	25,996
25,283	398,610	267,775	706,444
4,180	-	-	5,025
-	-	202,250	202,250
4,180	-	202,250	207,275
21,103	398,610	65,525	499,169
-	(209,445)	-	(209,445)
21,103	189,165	65,525	289,724
4,482	1,076,086	(65,295)	1,201,782
25,585	1,265,251	230	1,491,506

Adair County  
 Combining Schedule of Fiduciary Assets and Liabilities  
 Agency Funds

June 30, 2012

	County Offices	Agricultural Extension Education	County Assessor	Schools
<b>Assets</b>				
Cash and pooled investments:				
County Treasurer	\$ -	2,058	60,052	103,482
Other County officials	20,865	-	-	-
Receivables:				
Property tax:				
Delinquent	-	254	319	12,752
Succeeding year	-	135,000	183,000	6,346,000
Special assessments	-	-	-	-
Due from other governments	-	-	-	-
Prepaid expenses	-	-	6,668	-
<b>Total assets</b>	<b>\$ 20,865</b>	<b>137,312</b>	<b>250,039</b>	<b>6,462,234</b>
<b>Liabilities</b>				
Accounts payable	\$ -	-	10	-
Salaries and benefits payable	-	-	1,359	-
Due to other governments	20,865	137,312	229,867	6,462,234
Trusts payable	-	-	-	-
Compensated absences	-	-	18,803	-
<b>Total liabilities</b>	<b>\$ 20,865</b>	<b>137,312</b>	<b>250,039</b>	<b>6,462,234</b>

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	County Hospital	Auto License and Use Tax	Other	Total
4,945	29,077	4,344	19,974	204,806	72,819	501,557
-	-	-	-	-	-	20,865
599	8,051	343	2,462	-	3	24,783
329,000	2,573,000	309,000	1,313,000	-	1,000	11,189,000
-	-	-	-	-	83,138	83,138
-	-	-	-	-	11,186	11,186
-	-	-	-	-	-	6,668
<b>334,544</b>	<b>2,610,128</b>	<b>313,687</b>	<b>1,335,436</b>	<b>204,806</b>	<b>168,146</b>	<b>11,837,197</b>
-	-	-	-	-	619	629
-	-	-	-	-	-	1,359
334,544	2,610,128	313,687	1,335,436	204,806	133,482	11,782,361
-	-	-	-	-	34,045	34,045
-	-	-	-	-	-	18,803
<b>334,544</b>	<b>2,610,128</b>	<b>313,687</b>	<b>1,335,436</b>	<b>204,806</b>	<b>168,146</b>	<b>11,837,197</b>

Adair County

Combining Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds

Year ended June 30, 2012

	County Offices	Agricultural Extension Education	County Assessor	Schools
<b>Assets and Liabilities</b>				
Balances beginning of year	\$ 18,094	131,036	225,141	6,429,630
Additions:				
Property and other county tax	-	136,135	184,569	6,381,159
State tax credits	-	5,558	6,987	278,144
Office fees and collections	186,500	-	-	-
Electronic transaction fees	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	146,584	-	-	-
Miscellaneous	-	-	146	-
Total additions	333,084	141,693	191,702	6,659,303
Deductions:				
Agency remittances:				
To other funds	90,974	-	-	-
To other governments	92,755	135,417	166,804	6,626,699
Trusts paid out	146,584	-	-	-
Total deductions	330,313	135,417	166,804	6,626,699
Balances end of year	\$ 20,865	137,312	250,039	6,462,234

See accompanying independent auditor's report.

Community Colleges	Corpora- tions	Townships	County Hospital	Auto License and Use Tax	Other	Total
314,491	2,266,300	292,411	1,272,220	190,059	158,465	11,297,847
330,051	2,439,322	309,589	1,324,098	-	1,388	11,106,311
13,673	73,402	13,078	53,948	-	59	444,849
-	-	-	-	-	-	186,500
-	-	-	-	-	2,086	2,086
-	-	-	-	2,583,129	-	2,583,129
-	-	-	-	-	20,105	20,105
-	-	-	-	-	127,494	274,078
-	-	-	-	-	68,324	68,470
343,724	2,512,724	322,667	1,378,046	2,583,129	219,456	14,685,528
-	-	-	-	89,632	-	180,606
323,671	2,168,896	301,391	1,314,830	2,478,750	179,047	13,788,260
-	-	-	-	-	30,728	177,312
323,671	2,168,896	301,391	1,314,830	2,568,382	209,775	14,146,178
334,544	2,610,128	313,687	1,335,436	204,806	168,146	11,837,197

Adair County

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

For the Last Ten Years

	2012	2011	2010	2009
<b>Revenues:</b>				
Property and other county tax	\$ 3,869,754	3,348,513	3,167,982	3,059,585
Tax increment financing	13,541	-	-	155,821
Local option sales tax	393,649	382,925	359,998	389,100
Interest and penalty on property tax	38,153	40,603	36,663	32,615
Intergovernmental	3,345,918	4,514,671	3,406,128	4,056,407
Licenses and permits	19,665	13,045	11,581	10,785
Charges for service	216,685	218,616	202,184	192,838
Use of money and property	111,898	141,667	115,319	143,624
Miscellaneous	125,581	47,221	65,442	58,841
<b>Total</b>	<b>\$ 8,134,844</b>	<b>8,707,261</b>	<b>7,365,297</b>	<b>8,099,616</b>
<b>Expenditures:</b>				
<b>Operating:</b>				
Public safety and legal services	\$ 1,157,935	1,032,605	922,347	911,956
Physical health and social services	253,437	254,101	285,962	211,656
Mental health	965,012	830,960	723,834	822,903
County environment and education	442,356	395,070	349,061	356,852
Roads and transportation	3,900,205	4,398,859	3,317,301	3,225,904
Governmental services to residents	283,578	264,392	258,019	241,661
Administration	689,376	730,973	637,063	631,016
Debt service	268,250	65,313	3,180	310,430
Capital projects	1,949,111	2,568,105	235,048	915,695
<b>Total</b>	<b>\$ 9,909,260</b>	<b>10,540,378</b>	<b>6,731,815</b>	<b>7,628,073</b>

See accompanying independent auditor's report.

Modified Accrual Basis					
2008	2007	2006	2005	2004	2003
2,940,051	2,787,863	2,811,648	2,759,307	2,529,614	2,406,413
224,152	228,134	197,312	177,752	131,004	93,929
384,633	331,171	288,283	-	-	-
31,970	24,795	30,144	36,769	30,289	30,345
3,570,799	3,253,022	3,698,104	3,260,303	3,165,275	3,215,237
7,996	5,892	8,773	7,082	9,030	7,572
209,970	187,939	194,725	189,774	224,647	167,700
168,860	192,220	145,577	86,316	111,041	148,491
57,627	59,213	56,182	59,825	51,068	36,438
<b>7,596,058</b>	<b>7,070,249</b>	<b>7,430,748</b>	<b>6,577,128</b>	<b>6,251,968</b>	<b>6,106,125</b>
872,781	848,714	838,304	886,203	819,585	764,704
196,164	205,790	187,905	199,768	246,061	226,891
899,924	832,900	738,628	622,373	638,398	711,682
302,639	297,218	282,131	274,487	304,014	328,902
3,049,285	3,208,317	3,689,971	3,229,715	3,471,194	3,429,358
192,932	208,987	283,523	256,920	220,558	237,891
652,064	534,470	532,093	512,160	517,903	492,307
236,213	392,157	204,537	166,302	187,774	131,275
207,174	511,154	707,302	299,472	109,285	296,527
<b>6,609,176</b>	<b>7,039,707</b>	<b>7,464,394</b>	<b>6,447,400</b>	<b>6,514,772</b>	<b>6,619,537</b>

**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, 2012, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated November 7, 2012. 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

The management of Adair County is responsible for establishing and maintaining effective 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 weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

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

### Compliance and Other Matters

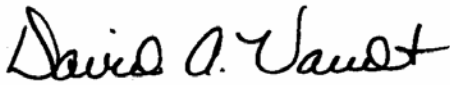
As part of obtaining reasonable assurance about whether Adair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

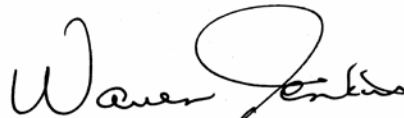
Adair County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit Adair County's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Adair County and other parties to whom Adair County may report, 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

November 7, 2012

Adair County

Schedule of Findings

Year ended June 30, 2012

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

Financial Reporting – During the audit, we identified material amounts of receivables and prepaid items not recorded in the County’s financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Recommendation – The County should implement procedures to ensure all receivables and prepaid items are identified and included in the County’s financial statements.

Response – The County Auditor will send a memo to all department heads toward the end of each fiscal year to remind them to report prepaid items and receivables to the Auditor and Treasurer, respectively. The memo will again be sent when the State Auditors return to start the annual audit.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted. However, disbursements in a department exceeded the amount appropriated prior to the approval of an appropriation amendment by the Board of Supervisors.

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

Response – The Board of Supervisors will make every attempt to not exceed departmental appropriations before budget amendments can be made, including using their authority as outlined in Chapter 331.434(6) of the Code of Iowa.

Conclusion – Response accepted.

- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

Adair County

Schedule of Findings

Year ended June 30, 2012

- (4) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Rick Mikkelsen, Secondary Roads Superintendent, son-in-law is part owner of R & D Services	Diesel fuel and parts	\$ 1,573
Sandy Mitchell, Deputy Auditor, brother-in-law is owner of Don Carlos Insurance	Insurance	3,557
Pam Jensen, Deputy Assessor, brother-in-law is owner of Southwest Iowa Pest Control	Pest control	460
Raedeen Bigelow, General Relief Director, husband is owner of Bigelow Welding	Parts	782

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. RC&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.

- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County’s investment policy were noted.

Adair County

Schedule of Findings

Year ended June 30, 2012

- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (9) Financial Condition – Although the Special Revenue, Mental Health and Urban Renewal Funds had positive cash balances at June 30, 2012, the modified accrual basis unassigned fund balance deficits were \$209,079 and \$64,181, respectively.

Recommendation – The County should investigate alternatives to eliminate these deficit balances.

Response – The County is currently investigating alternatives to help eliminate these deficit balances including applying for transitional funds for Mental Health and creating a waiting list, as well as reviewing the mandatory services and the non-mandatory services. The Urban Renewal Funds will start to generate revenue so the General Fund can be reimbursed and then will no longer have a deficit balance.

Conclusion – Response accepted.

- (10) Emergency Management Budget – Disbursements during the year ended June 30, 2012 exceeded the amount budgeted prior to approval of the budget amendment.

Recommendation – The budget should have been amended by the Emergency Management Commission in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The County Auditor has informed the Emergency Management Director the budget must be amended in accordance with Chapter 24.9 of the Code of Iowa before the budget is exceeded.

Conclusion – Response accepted.

- (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, 2012 for the County Extension Office did not exceed the amount budgeted.

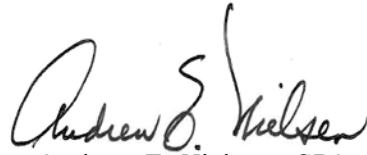
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Adair County

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Tammy A. Hollingsworth, Senior Auditor II  
Jessica N. Meierotto, Staff Auditor  
Todd E. Pudenz, Assistant Auditor  
Laura M. Wernimont, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State