



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

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NEWS RELEASE

FOR RELEASE

November 8, 2005

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

The County had local tax revenue of \$10,846,222 for the year ended June 30, 2005, which included \$657,299 in tax credits from the state. The County forwarded \$7,924,048 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$2,922,174 of the local tax revenue to finance County operations, a 9 percent increase from the prior year. Other revenues included charges for service of \$436,790, operating grants, contributions and restricted interest of \$2,805,640, capital grants, contributions and restricted interest of \$3,149,790, tax increment financing of \$177,753, unrestricted investment earnings of \$72,768 and other general revenues of \$50,571.

Expenses for County operations totaled \$6,179,780, a 1 percent increase from the prior year. Expenses included \$3,349,052 for roads and transportation, \$903,839 for public safety and legal services and \$622,373 for mental health.

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

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ADAIR COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2005

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Adair County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2005)		
Marvin Ford	Board of Supervisors	Jan 2005
Richard Dolan	Board of Supervisors	Jan 2005
Robert Grasty	Board of Supervisors	Jan 2005
John VanVleet	Board of Supervisors	Jan 2007
Richard Hoadley	Board of Supervisors	Jan 2007
Jenice K. Wallace	County Auditor	Jan 2005
Ronald Herr	County Treasurer	Jan 2007
Janelle Schneider	County Recorder	Jan 2007
Randy Marchant	County Sheriff	Jan 2005
Clint Hight	County Attorney	Jan 2007
Kenneth E. Huddleson	County Assessor	Jan 2008
(After January 2005)		
Richard Hoadley	Board of Supervisors	Jan 2007
John VanVleet	Board of Supervisors	Jan 2007
Richard Dolan	Board of Supervisors	Jan 2009
Robert Grasty	Board of Supervisors	Jan 2009
Bill Lamb	Board of Supervisors	Jan 2009
Jenice K. Wallace	County Auditor	Jan 2009
Ronald Herr	County Treasurer	Jan 2007
Janelle Schneider	County Recorder	Jan 2007
Randy Marchant	County Sheriff	Jan 2009
Clint Hight	County Attorney	Jan 2007
Kenneth E. Huddleson	County Assessor	Jan 2008

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, 2005, 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.

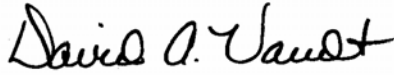
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2005, 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 September 28, 2005 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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 44 through 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adair County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Adair County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Adair County implemented new reporting standards for last fiscal year with significant changes in content and structure. Now much of the information is easily comparable to the prior year.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 24.4%, or approximately \$1,884,000, from fiscal 2004 to fiscal 2005. Property tax increased approximately \$225,000, operating grants, contributions and restricted interest decreased approximately \$141,000 and capital grants, contributions and restricted interest increased approximately \$1,690,000.
- The County's program expenses increased 1.1%, or approximately \$67,000, from fiscal 2004 to fiscal 2005. Roads and transportation expense increased approximately \$50,000, public safety and legal services expense increased approximately \$93,000 and county environment and education expense decreased approximately \$59,000.
- The County's net assets increased 52%, or approximately \$3,436,000, from June 30, 2004 to June 30, 2005.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Adair County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Adair County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

2) Proprietary funds account for the County's Internal Service Fund, Employee Health Insurance. 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 and the County Assessor, to name a couple.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below shows the changes in the net assets for governmental activities from a year ago.

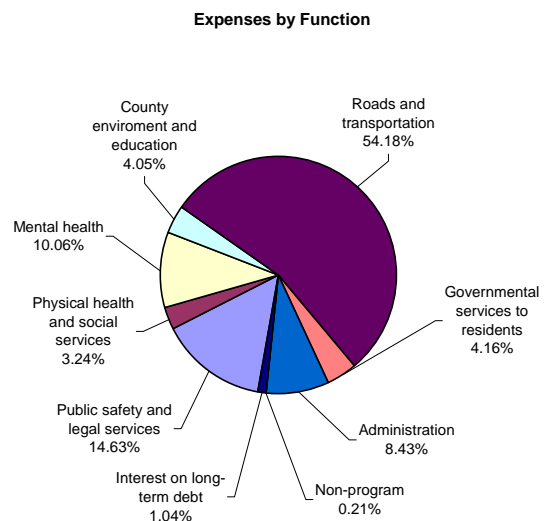
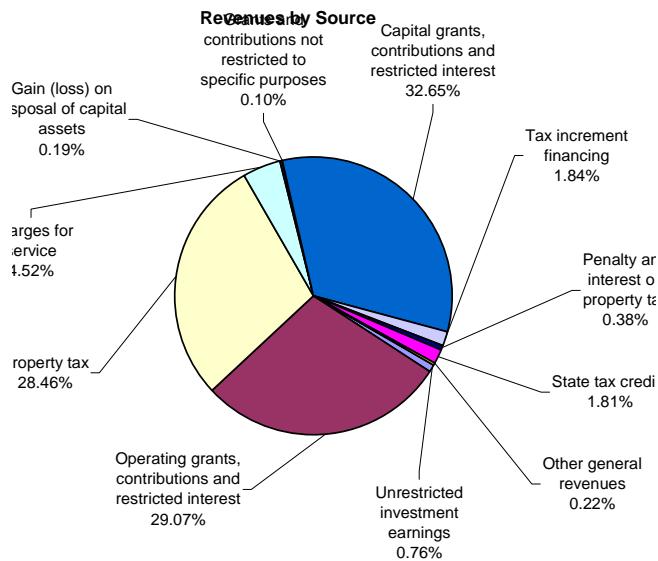
Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2005	2004
Current and other assets	\$ 6,538	6,419
Capital assets	8,151	4,913
Total assets	<u>14,689</u>	<u>11,332</u>
Long-term liabilities	1,124	1,230
Other liabilities	3,473	3,446
Total liabilities	<u>4,597</u>	<u>4,676</u>
Net assets:		
Invested in capital assets	8,151	4,913
Restricted	2,048	2,068
Unrestricted	<u>(107)</u>	<u>(325)</u>
Total net assets	<u>\$ 10,092</u>	<u>6,656</u>

Net assets of Adair County's governmental activities increased by approximately \$3.4 million, or 52%. The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The significant increase in net assets invested in capital assets is the result of capital contributions from the Iowa Department of Transportation for road projects.

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 at a deficit of \$107,000. The deficit unrestricted net assets results primarily from the County's liability for urban renewal revenue notes issued for urban renewal projects. The County does not own and, accordingly, has not recorded the assets for which this debt was issued. The deficit decreased 67% from fiscal 2004, from approximately \$325,000 at June 30, 2004 to \$107,000 at the end of this year.

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

	Year ended June 30,	
	2005	2004
Revenues:		
Program revenues:		
Charges for service	\$ 437	331
Operating grants, contributions and restricted interest	2,806	2,947
Capital grants, contributions and restricted interest	3,150	1,460
General revenues:		
Property tax	2,747	2,522
Tax increment financing	178	131
Penalty and interest on property tax	37	30
State tax credits	175	166
Grants and contributions not restricted to specific purposes	10	7
Unrestricted investment earnings	73	86
Gain (loss) on disposal of capital assets	(18)	27
Other general revenues	21	25
Total revenues	9,616	7,732
Program expenses:		
Public safety and legal services	904	811
Physical health and social services	200	246
Mental health	622	638
County environment and education	250	309
Roads and transportation	3,349	3,299
Governmental services to residents	257	221
Administration	521	525
Non-program	13	-
Interest on long-term debt	64	64
Total expenses	6,180	6,113
Increase in net assets	3,436	1,619
Net assets beginning of year	6,656	5,037
Net assets end of year	\$ 10,092	6,656



The County increased property tax rates for 2005 by an average of 16 percent for urban residents and 11 percent for rural residents. This increase raised the County's property tax revenue by approximately \$225,000 in 2005. Based on slight increases in the total assessed valuation and an increased levy rate, property tax revenue is budgeted to increase by an additional \$73,000 next year.

The cost of all governmental activities this year was \$6.2 million compared to \$6.1 million last year. Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased in 2005 from approximately \$4,738,000 to \$6,393,000, principally due to receiving capital contributions of approximately \$3,084,000 from the Iowa Department of Transportation for road projects. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$2,747,000 in taxes 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 \$3 million, a modest increase of \$100,000 above last year's total of \$2.9 million. The increase in fund balance is primarily attributable to reduced expenditures in the secondary road and mental health areas. 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 showed a modest increase of approximately \$57,000 over the prior year to \$656,000. General fund expenditures held steady while revenues from property tax and intergovernmental sources increased.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$622,000, a decrease of 3% from the prior year. The Mental Health Fund balance at year ended increased by approximately \$16,000 over the prior year. Clients continue to use waiver programs that are funded in part with state and federal dollars.
- The Rural Services Fund ending fund balance increased approximately \$71,000 over the prior year to approximately \$163,000. Operating transfers out decreased approximately \$85,000 from the prior year, which contributed to the increase in fund balance.
- Secondary Roads Fund expenditures decreased by approximately \$75,000 from the prior year. The ending balance of approximately \$1.4 million decreased approximately \$48,000, or 3%. Operating transfers in decreased approximately \$87,000 from the prior year, which contributed to the decrease in fund balance.

BUDGETARY HIGHLIGHTS

Over the course of the year, Adair County amended its budget four times. The first amendment was done in October 2004 and resulted in an increase in budgeted disbursements related to purchase of a new sheriff's car, EMS grant expenses, recorder's electronic transaction expenses, etc. Designated fund balances were decreased to reflect the purchase of the car and for expenditures at the secondary road shop for the office insert. Intergovernmental revenues and charges for service also increased. The second amendment was completed in November 2004. This amendment was needed to honor the request of the Adair County Memorial Hospital to release \$60,000 of designated general fund balance for the purchase of an ambulance. The third amendment dated December 6, 2004 was needed to purchase a 2002 Cat motor grader for the Secondary Roads Department. The final budget amendment in May 2005 approved increases for the Sheriff, for autopsy and medical examiner costs, for costs related to local elections, the driver's license program and youth shelter. The Conservation Department was awarded a fish habitat

grant and expenses related to that project also were approved. Adjustments were made on revenue line items to more accurately reflect revenues to be received.

During the year, the following situations and actions impacted the County's budget:

- County paid health insurance premiums decreased approximately 1.5%. Effective July 1, 2004 Adair County purchased a higher deductible health insurance plan for county employees. The County used reserves in the Employee Health Insurance Fund to fund the difference in the deductibles for employee health insurance.
- The County began contracting for general relief administration with MATURA after the resignation of the general relief director in February. This saved county tax dollars for the balance of the fiscal year.
- The Local DHS office was moved into the courthouse during the spring of 2005. This will save rental costs. The County also employed Cost Advisory Services to recoup dollars for local purchase of service associated with Department of Human Services programs. Cost Advisory Services will go back one year and also perform future cost reports for the county.
- Elected officials received one and one-half percent salary increases, which were also passed down to deputies in the offices of elected officials. Employees not covered by union contracts also received 1.5% salary and wage increases.
- The union contracts were settled at a rate of 2% for the Sheriff's Dispatchers and 4% for Secondary Roads union workers.
- The mileage reimbursement rate for county employees was 25 cents per mile for the first half of the year and increased to 32 cents per mile in January, below the federal reimbursement rate of 40.5 cents per mile.
- Property valuations used to compute tax rates decreased approximately \$7.5 million in rural areas and \$875,408 in urban areas.
- Interest income remained low due to low interest rates and lower fund balances, although a trend in higher interest rates has started to develop.
- Fees charged for the environmental health program and E911 sign costs were increased to more accurately reflect costs to provide the service.
- Rural County voters approved a local option tax for the County effective July 1, 2005. The Board approved the use of the estimated \$226,000 to be used for bridge maintenance and replacement.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, Adair County had approximately \$11 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$3,412,000, or 44.4 percent, over last year. Major additions included a \$2.5 million paving project and \$1.4 million for bridge and culvert projects.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2005	2004
Land	\$ 336	306
Land, road network	34	34
Construction in progress	218	988
Buildings and improvements	653	623
Improvements other than buildings	142	136
Equipment and vehicles	5,050	5,082
Infrastructure, road network	4,661	513
Total	\$ 11,094	7,682
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation	\$ 3,084	
Bridge construction projects	268	
Replacement of motor grader and secondary roads trailer	207	
Fire exit at secondary roads office	7	
Conservation fish spawning bed	26	
County Sheriff and conservation vehicles	45	
Total	\$ 3,637	

The County had depreciation expense of \$382,800 in FY05 and total accumulated depreciation of approximately \$2.9 million at June 30, 2005. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2005, Adair County had approximately \$991,000 in capital loan notes outstanding, a decrease of approximately \$103,000, or 9%, from June 30, 2004.

The Constitution of the State of Iowa limits the amount of debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Adair County's outstanding debt is significantly below its constitutional debt limit of \$23 million. Other obligations include accrued vacation pay and sick leave. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Adair County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and the fees charged for various County activities. One of those factors is the economy. Unemployment in the County now stands at 3.3 percent versus 2.9 percent a year ago. This compares with the State's unemployment rate of 4.6 percent and the national rate of 5 percent.

The Local Option Sales Tax will generate funds to rebuild county bridges. Adair County has a very high number of bridges, with many in need of repair or replacement. The Local Option Sales Tax will remain in effect for seven years.

The County will need to purchase new voting technology, with part or all of the expense to be reimbursed with state and federal HAVA dollars.

The County Treasurer took over the duties of driver's license examiner effective July 1, 2005. Since issuance of drivers licenses began at the county level, the county has shared a driver's license examiner with three other counties. This should save county dollars.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$6.8 million, a decrease of 6 percent from the final 2005 budget. Property tax revenues increased due to a 2006 rate increase. Adair County will use these increases in receipts to finance programs we currently offer and offset the effect we expect inflation to have on program costs. The increase in property tax revenue is needed to keep acceptable fund balances.

Budgeted disbursements are expected to decrease by approximately \$383,000. The largest decreases are noted in the roads and transportation area. The County has added no major new programs or initiatives to the 2006 budget. If these estimates are realized, the County's budgetary operating balance is expected to modestly increase by the close of 2006.

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, Greenfield, Iowa 50849.

Basic Financial Statements

Exhibit A

Adair County
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 2,678,412
Receivables:	
Property tax:	
Delinquent	9,098
Succeeding year	2,833,000
Tax increment financing:	
Succeeding year	209,000
Accounts	5,006
Accrued interest	9,806
Due from other governments	429,962
Inventories	189,251
Prepaid items	174,399
Capital assets (net of accumulated depreciation)	<u>8,151,000</u>
Total assets	<u>14,688,934</u>
Liabilities	
Accounts payable	220,567
Accrued interest payable	4,935
Salaries and benefits payable	85,165
Due to other governments	120,262
Deferred revenue:	
Succeeding year property tax	2,833,000
Succeeding year tax increment financing	209,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital loan notes	106,000
Compensated absences	76,524
Portion due or payable after one year:	
Capital loan notes	885,440
Compensated absences	<u>56,494</u>
Total liabilities	<u>4,597,387</u>
Net Assets	
Invested in capital assets	8,151,000
Restricted for:	
Supplemental levy purposes	146,989
Mental health purposes	268,299
Secondary roads purposes	1,268,521
Other purposes	363,845
Unrestricted	<u>(107,107)</u>
Total net assets	<u>\$ 10,091,547</u>

See notes to financial statements.

Adair County
Statement of Activities
Year ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest		Capital Grants, Contributions and Restricted Interest
Functions/Programs:					
Governmental activities:					
Public safety and legal services	\$ 903,839	23,771	24,395	-	(855,673)
Physical health and social services	199,768	19,350	56,310	-	(124,108)
Mental health	622,373	191	328,309	-	(293,873)
County environment and education	250,250	24,678	13,948	10,708	(200,916)
Roads and transportation	3,349,052	175,693	2,340,840	3,139,082	2,306,563
Governmental services to residents	257,234	175,555	551	-	(81,128)
Administration	520,834	17,435	1,000	-	(502,399)
Non-program	13,005	117	-	-	(12,888)
Interest on long-term debt	63,425	-	40,287	-	(23,138)
Total	\$ 6,179,780	436,790	2,805,640	3,149,790	212,440
General Revenues:					
Property and other county tax levied for general purposes					2,746,859
Tax increment financing					177,753
Penalty and interest on property tax					36,769
State tax credits					175,315
Grants and contributions not restricted to specific purpose					10,471
Unrestricted investment earnings					72,768
Loss on disposal of capital assets					(18,060)
Miscellaneous					21,391
Total general revenues					3,223,266
Change in net assets					3,435,706
Net assets beginning of year					6,655,841
Net assets end of year					\$ 10,091,547

See notes to financial statements.

Adair County
Balance Sheet
Governmental Funds

June 30, 2005

Assets	Special Revenue		
	General	Mental Health	Rural Services
Cash and pooled investments	\$ 580,677	375,475	168,357
Receivables:			
Property tax:			
Delinquent	5,788	1,063	2,247
Succeeding year	1,591,000	292,000	950,000
Tax increment financing:			
Succeeding year	-	-	-
Accounts	2,752	80	225
Accrued interest	8,271	-	-
Due from other funds	-	-	-
Due from other governments	37,754	111	-
Inventories	-	-	-
Prepaid items	82,736	41	698
Total assets	\$ 2,308,978	668,770	1,121,527
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 7,870	10,611	566
Salaries and benefits payable	24,156	1,090	5,638
Due to other funds	806	-	-
Due to other governments	23,091	96,770	-
Deferred revenue:			
Succeeding year property tax	1,591,000	292,000	950,000
Succeeding year tax increment financing	-	-	-
Other	5,788	1,063	2,247
Total liabilities	1,652,711	401,534	958,451
Fund balances:			
Reserved for:			
Supplemental levy purposes, undesignated	122,140	-	-
Supplemental levy purposes, designated for voting equipment	25,000	-	-
Debt service	-	-	-
Unreserved, designated for:			
Courthouse repairs and other capital projects	10,000	-	-
Three-Mile structure repairs	-	-	10,000
Office remodeling/construction	-	-	-
Unreserved, undesignated, reported in:			
General fund	499,127	-	-
Special revenue funds	-	267,236	153,076
Total fund balances	656,267	267,236	163,076
Total liabilities and fund balances	\$ 2,308,978	668,770	1,121,527

See notes to financial statements.

Secondary Roads	Nonmajor	Total
953,669	572,443	2,650,621
-	-	9,098
-	-	2,833,000
-	209,000	209,000
1,949	-	5,006
-	1,477	9,748
806	-	806
392,097	-	429,962
189,251	-	189,251
78,088	12,836	174,399
<u>1,615,860</u>	<u>795,756</u>	<u>6,510,891</u>
198,155	-	217,202
54,281	-	85,165
-	-	806
401	-	120,262
-	-	2,833,000
-	209,000	209,000
-	-	9,098
<u>252,837</u>	<u>209,000</u>	<u>3,474,533</u>
-	-	122,140
-	-	25,000
-	127,515	127,515
-	-	10,000
-	-	10,000
20,000	-	20,000
-	-	499,127
<u>1,343,023</u>	<u>459,241</u>	<u>2,222,576</u>
<u>1,363,023</u>	<u>586,756</u>	<u>3,036,358</u>
<u>1,615,860</u>	<u>795,756</u>	<u>6,510,891</u>

Adair County

Adair County

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

June 30, 2005

Total governmental fund balances (page 19) \$ 3,036,358

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$11,094,433 and the accumulated depreciation is \$2,943,433. 8,151,000

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 9,098

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. 24,484

Long-term liabilities, including capital loan notes payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (1,129,393)

Net assets of governmental activities (page 17) \$ 10,091,547

See notes to financial statements.

Adair County

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

Year ended June 30, 2005

	Special Revenue		
	General	Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 1,555,942	291,284	912,081
Tax increment financing	-	-	-
Interest and penalty on property tax	36,769	-	-
Intergovernmental	246,170	347,227	55,418
Licenses and permits	5,857	-	225
Charges for service	187,523	-	-
Use of money and property	71,101	-	158
Miscellaneous	4,759	80	6,924
Total revenues	<u>2,108,121</u>	<u>638,591</u>	<u>974,806</u>
Expenditures:			
Operating:			
Public safety and legal services	876,068	-	10,000
Physical health and social services	199,768	-	-
Mental health	-	622,373	-
County environment and education	194,036	-	80,451
Roads and transportation	-	-	114,507
Governmental services to residents	227,809	-	2,062
Administration	512,160	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	<u>2,009,841</u>	<u>622,373</u>	<u>207,020</u>
Excess (deficiency) of revenues over (under) expenditures	<u>98,280</u>	<u>16,218</u>	<u>767,786</u>
Other financing sources (uses):			
Sale of capital assets	2,679	-	-
Operating transfers in	-	-	-
Operating transfers out	(43,804)	-	(696,999)
Total other financing sources (uses)	<u>(41,125)</u>	<u>-</u>	<u>(696,999)</u>
Net change in fund balances	57,155	16,218	70,787
Fund balances beginning of year	<u>599,112</u>	<u>251,018</u>	<u>92,289</u>
Fund balances end of year	<u>\$ 656,267</u>	<u>267,236</u>	<u>163,076</u>

See notes to financial statements.

Secondary Roads	Nonmajor	Total
-	-	2,759,307
-	177,752	177,752
-	-	36,769
2,565,732	45,756	3,260,303
1,000	-	7,082
12	2,239	189,774
-	15,057	86,316
34,114	13,948	59,825
<u>2,600,858</u>	<u>254,752</u>	<u>6,577,128</u>
-	135	886,203
-	-	199,768
-	-	622,373
-	-	274,487
3,115,208	-	3,229,715
-	27,049	256,920
-	-	512,160
-	166,302	166,302
274,579	24,893	299,472
<u>3,389,787</u>	<u>218,379</u>	<u>6,447,400</u>
(788,929)	36,373	129,728
-	-	2,679
740,803	3,401	744,204
-	(3,401)	(744,204)
<u>740,803</u>	<u>-</u>	<u>2,679</u>
(48,126)	36,373	132,407
<u>1,411,149</u>	<u>550,383</u>	<u>2,903,951</u>
<u>1,363,023</u>	<u>586,756</u>	<u>3,036,358</u>

Adair County

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

Year ended June 30, 2005

Net change in fund balances - Total governmental funds (page 23) \$ 132,407

**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	\$ 557,887	
Capital assets contributed by the Iowa Department of Transportation	3,083,825	
Depreciation expense	<u>(382,800)</u>	3,258,912

In the Statement of Activities, the loss on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (20,739)

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	(12,575)	
Other	<u>(17,013)</u>	(29,588)

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. 102,687

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 governmental funds, as follows:

Compensated absences	2,661	
Interest on long-term debt	<u>190</u>	2,851

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. (10,824)

Change in net assets of governmental activities (page 17) \$ 3,435,706

See notes to financial statements.

Adair County
 Statement of Net Assets
 Proprietary Fund
 June 30, 2005

	Internal Service - Employee Health Insurance
Assets	
Cash and cash equivalents	\$ 27,791
Accrued interest receivable	58
Total assets	27,849
Liabilities	
Accounts payable	3,365
Net Assets	
Unrestricted	\$ 24,484

See notes to financial statements.

Exhibit H

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

Year ended June 30, 2005

		<u>Internal Service - Employee Health Insurance</u>
Operating revenues:		
Reimbursements from employees		\$ 1,700
Operating expenses:		
Medical claims	\$ 12,439	
Administrative fees	566	13,005
Operating loss		<u>(11,305)</u>
Non-operating revenues:		
Interest income		481
Net loss		<u>(10,824)</u>
Net assets beginning of year		<u>35,308</u>
Net assets end of year		<u><u>\$ 24,484</u></u>

See notes to financial statements.

Adair County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2005

	Internal Service - Employee Health Insurance
Cash flows used for operating activities:	
Cash received from employees	\$ 1,700
Cash paid to suppliers for services	(9,640)
Net cash used for operating activities	(7,940)
Cash flows from investing activities:	
Interest on investments	423
Net decrease in cash and cash equivalents	(7,517)
Cash and cash equivalents beginning of year	35,308
Cash and cash equivalents end of year	\$ 27,791
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (11,305)
Adjustment to reconcile operating loss to net cash used for operating activities:	
Increase in accounts payable	3,365
Net cash used for operating activities	\$ (7,940)

See notes to financial statements.

Adair County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005

Assets

Cash and pooled investments:	
County Treasurer	\$ 422,127
Other County officials	5,754
Receivables:	
Property tax:	
Delinquent	30,481
Succeeding year	7,125,000
Special assessments	18,262
Total assets	<u>7,601,624</u>

Liabilities

Accounts payable	167
Salaries and benefits payable	1,193
Due to other governments	7,547,256
Trusts payable	47,743
Compensated absences	5,265
Total liabilities	<u>7,601,624</u>

Net assets \$ -

See notes to financial statements.

Adair County

Notes to Financial Statements

June 30, 2005

(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 and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

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

Invested in capital assets consists of capital assets, net of accumulated depreciation.

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments are stated at fair value except for the investment in the 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2004.

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, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the 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
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 period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivable not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivables that will not be recognized as revenue until the year for which they are 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, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Secondary Roads Funds.

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

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

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

Net Assets – The net assets of the Employee Health Insurance Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted by function and departmental disbursements did not exceed the amounts appropriated.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2005 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 \$2,049 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) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the County.

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

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

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue: Secondary Roads	General	\$ 806

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

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	General	\$ 43,804
	Special Revenue: Rural Services	696,999
Urban Renewal	Capital Projects	3,401
Total		\$ 744,204

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, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 306,067	30,000	-	336,067
Land, road network	34,220	-	-	34,220
Construction in progress	988,183	3,377,505	(4,148,027)	217,661
Total capital assets not being depreciated	<u>1,328,470</u>	<u>3,407,505</u>	<u>(4,148,027)</u>	<u>587,948</u>
Capital assets being depreciated:				
Buildings	622,890	30,490	-	653,380
Improvements other than buildings	135,573	6,605	-	142,178
Equipment and vehicles	5,082,008	251,562	(283,868)	5,049,702
Infrastructure, road network	513,198	4,148,027	-	4,661,225
Total capital assets being depreciated	<u>6,353,669</u>	<u>4,436,684</u>	<u>(283,868)</u>	<u>10,506,485</u>
Less accumulated depreciation for:				
Buildings	109,387	44,473	-	153,860
Improvements other than buildings	66,163	4,434	-	70,597
Equipment and vehicles	2,586,882	283,558	(208,679)	2,661,761
Infrastructure, road network	6,880	50,335	-	57,215
Total accumulated depreciation	<u>2,769,312</u>	<u>382,800</u>	<u>(208,679)</u>	<u>2,943,433</u>
Total capital assets being depreciated, net	<u>3,584,357</u>	<u>4,053,884</u>	<u>(75,189)</u>	<u>7,563,052</u>
Governmental activities capital assets, net	<u>\$ 4,912,827</u>	<u>7,461,389</u>	<u>(4,223,216)</u>	<u>8,151,000</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 30,365
County environment and education	51,167
Roads and transportation	292,645
Administration	<u>8,623</u>
Total depreciation expense - governmental activities	<u>\$ 382,800</u>

(6) Due to Other Governments

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

Fund	Description	Amount
General	Services	\$ 23,091
Special Revenue:		
Mental Health	Services	96,770
Secondary Roads	Services	401
		<u>97,171</u>
Total for governmental funds		<u>\$ 120,262</u>
Agency:		
County Assessor	Collections	\$ 182,243
Schools		4,626,894
Community Colleges		222,434
Corporations		1,201,546
County Hospital		812,636
Auto License and Use Tax		163,939
All other		<u>337,564</u>
Total for agency funds		<u>\$ 7,547,256</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Capital Loan Notes Payable	Compensated Absences	Total
Balance beginning of year	\$ 1,094,127	135,679	1,229,806
Increases	-	145,111	145,111
Decreases	102,687	147,772	250,459
Balance end of year	<u>\$ 991,440</u>	<u>133,018</u>	<u>1,124,458</u>
Due within one year	<u>\$ 106,000</u>	<u>76,524</u>	<u>182,524</u>

Capital Loan Notes Payable

On November 25, 1998, the County issued \$600,000 of urban renewal revenue capital loan notes. The notes bear interest at 5.25 percent per annum and mature in varying annual amounts ranging from \$31,000 to \$51,000, with final maturity in June 2011. These notes were used to plan, undertake and carry out an urban renewal project, including the purchase of water, sewer and street paving improvements.

On May 1, 2001, the County issued \$630,000 of urban renewal revenue capital loan notes. The notes bear interest at 6 percent per annum and mature in varying annual amounts ranging from \$50,000 to \$90,000, with final maturity in June 2013. The note proceeds were used to provide a grant to the Iowa Interstate Railroad for construction of a rail spur line to serve the I-80 industrial business park.

On January 18, 2002, the County issued a \$250,000 subordinate urban renewal revenue capital loan note (subordinate note). The note bears interest at 6 percent per annum with final maturity on June 1, 2013. The note proceeds were used to provide additional funds to the Iowa Interstate Railroad for construction of a rail spur line to serve the I-80 industrial business park.

A formal repayment schedule has not been established for the subordinate note. Interest is due and payable from allocable subordinate tax increment financing (TIF) revenues annually until the note matures on June 1, 2013. Allocable revenues are those TIF revenues remaining annually after principal and interest payments and required sinking and reserve transfers on the November 1998 and May 2001 notes are satisfied. During the year ended June 30, 2005, interest of \$14,588 and principal of \$4,687 were paid on the note. The balance remaining on the note at June 30, 2005 was \$238,440.

Details of the County's June 30, 2005 capital loan note indebtedness for which formal repayment schedules have been established are as follows:

Year Ending June 30,	Urban Renewal Revenue Notes November 25, 1998			Urban Renewal Revenue Notes May 1, 2001			Total		
	Interest			Interest			Principal	Interest	Total
	Rate	Principal	Interest	Rate	Principal	Interest			
2006	5.25%	\$ 51,000	11,708	6.00%	\$ 50,000	31,800	\$ 101,000	43,508	144,508
2007	5.25	31,000	9,030	6.00	55,000	28,800	86,000	37,830	123,830
2008	5.25	33,000	3,701	6.00	60,000	25,500	93,000	29,201	122,201
2009	5.25	34,000	5,670	6.00	60,000	21,900	94,000	27,570	121,570
2010	5.25	36,000	3,885	6.00	65,000	18,300	101,000	22,185	123,185
2011-2013	5.25	38,000	1,995	6.00	240,000	30,000	278,000	31,995	309,995
Total		<u>\$ 223,000</u>	<u>35,989</u>		<u>\$ 530,000</u>	<u>156,300</u>	<u>\$ 753,000</u>	<u>192,289</u>	<u>945,289</u>

During the year ended June 30, 2005, the County retired \$48,000 of urban renewal notes dated November 25, 1998 and \$50,000 of urban renewal notes dated May 1, 2001.

The urban renewal notes are payable solely from the taxes paid into the Special Revenue, Urban Renewal Fund pursuant to Chapter 403.19 of the Code of Iowa and other funds derived or held in connection with the projects related to these note issues. The County's urban renewal plan dated February 25, 1998 included a provision for the City of Stuart to pay the County \$52,500 for the first 5 years of the plan and \$22,500 for the next three years to help defray the cost of the urban renewal projects. Also, in February 2002, the County entered into a 28E agreement with the City of Stuart in which the City agreed to provide \$14,000 annually to the County to help defray the cost of principal and interest on the notes. The notes are not a general obligation of the County. However, the debt is subject to the constitutional debt limitation of the County.

The resolutions providing for the issuance of the urban renewal revenue capital loan notes include the following provisions:

- (1) Sufficient annual transfers shall be made to urban renewal project sinking funds for the purpose of making the note principal and interest payments when due.

- (2) Sufficient monthly transfers shall be made to urban renewal reserve funds until specific minimum balances have been accumulated. These funds are restricted for the purpose of paying note principal and interest payments due when insufficient money is available in the sinking funds.
- (3) Surplus revenues attributable to the subordinate project area shall be deposited to a sinking fund for the purpose of making subordinate note principal and interest payments.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2005 are 8.535% for both the employee and the County. For the year ended June 30, 2004, the contribution rates for law enforcement employees and the County were 4.99% and 7.48%, respectively, and for the year ended June 30, 2003, the contribution rates were 5.37% and 8.05%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$119,612, \$117,213 and \$107,320, respectively, equal to the required contributions for each year.

(9) Risk Management

Adair County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 509 members from 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 and inland marine. 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 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2005 were \$105,135.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

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 that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the County's financial statements. As of June 30, 2005, 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 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 capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

(10) 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 both employee and County contributions and is administered through a service agreement with Wellmark. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual deduction limitations of \$500 and \$1,000 for single and family coverage, respectively.

Monthly payments of service fees and plan contributions to the Employee Health Insurance Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark from the Employee Health Insurance Fund. The County did not contribute to the fund during year ended June 30, 2005.

Amounts payable from the Employee Health Insurance Fund at June 30, 2005 total \$3,365, which is for incurred but not reported (IBNR) and reported but not paid claims. The County was not required to obtain an actuarial report for the period ended June 30, 2005 since its plan qualifies as a “mini plan.” A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	<u>\$ -</u>
Incurred claims (including claims incurred but not reported at June 30, 2005)	15,804
Payments on claims during the fiscal year	<u>(12,439)</u>
Unpaid claims end of year	<u><u>\$ 3,365</u></u>

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, 2005

	Actual	Budgeted Amounts	
		Original	Final
Receipts:			
Property and other county tax	\$ 2,937,060	2,914,130	2,920,130
Interest and penalty on property tax	36,769	29,500	29,500
Intergovernmental	3,041,907	3,288,244	3,422,421
Licenses and permits	6,823	8,450	7,450
Charges for service	204,561	177,818	190,378
Use of money and property	82,847	75,050	72,680
Miscellaneous	68,529	12,100	33,097
Total receipts	6,378,496	6,505,292	6,675,656
Disbursements:			
Public safety and legal services	878,614	773,332	906,686
Physical health and social services	199,123	238,189	247,963
Mental health	596,404	662,043	662,043
County environment and education	266,330	271,823	271,823
Roads and transportation	3,449,620	3,295,708	3,471,565
Governmental services to residents	271,826	233,533	273,500
Administration	512,318	539,761	541,209
Debt service	166,302	172,028	172,028
Capital projects	204,508	391,000	606,000
Total disbursements	6,545,045	6,577,417	7,152,817
Deficiency of receipts under disbursements	(166,549)	(72,125)	(477,161)
Other financing sources, net	2,679	-	-
Deficiency of receipts and other financing sources under disbursements and other financing uses	(163,870)	(72,125)	(477,161)
Balance beginning of year	2,814,491	2,469,562	2,790,626
Balance end of year	\$ 2,650,621	2,397,437	2,313,465

See accompanying independent auditor's report.

<u>Final to</u> <u>Actual</u> <u>Variance</u>
16,930
7,269
(380,514)
(627)
14,183
10,167
35,432
<u>(297,160)</u>
28,072
48,840
65,639
5,493
21,945
1,674
28,891
5,726
401,492
<u>607,772</u>
310,612
<u>2,679</u>
313,291
<u>23,865</u>
<u><u>337,156</u></u>

Adair County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 6,378,496	198,632	6,577,128
Expenditures	6,545,045	(97,645)	6,447,400
Net	(166,549)	296,277	129,728
Other financing sources, net	2,679	-	2,679
Beginning fund balances	2,814,491	89,460	2,903,951
Ending fund balances	\$ 2,650,621	385,737	3,036,358

See accompanying independent auditor's report.

Adair County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the 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, four budget amendments increased budgeted disbursements by \$575,400. 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, 2005, disbursements did not exceed the amounts budgeted by function and departmental disbursements did not exceed the amounts appropriated.

Adair County

Other Supplementary Information

Adair County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

	Resource Enhance- ment and Protection	County Recorder's Records Management
Assets		
Cash and pooled investments	\$ 106,837	8,419
Receivables:		
Tax increment financing:		
Succeeding year	-	-
Accrued interest	371	23
Prepaid items	-	-
	Total assets	8,442
	\$ 107,208	8,442
Liabilities and Fund Equity		
Liabilities:		
Deferred revenue:		
Succeeding year tax increment financing	-	-
Fund equity:		
Fund balances:		
Reserved for debt service	-	-
Unreserved, undesignated	107,208	8,442
Total fund equity	107,208	8,442
	Total liabilities and fund equity	8,442
	\$ 107,208	8,442

See accompanying independent auditor's report.

Special Revenue					
County Recorder's Electronic Transaction Fee	Special Law Enforcement	Urban Renewal	Conservation Land Acquisition Trust		Total
443	3,873	222,553	230,318		572,443
-	-	209,000	-		209,000
38	9	358	678		1,477
12,836	-	-	-		12,836
13,317	3,882	431,911	230,996		795,756
-	-	209,000	-		209,000
-	-	127,515	-		127,515
13,317	3,882	95,396	230,996		459,241
13,317	3,882	222,911	230,996		586,756
13,317	3,882	431,911	230,996		795,756

Adair County

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

Year ended June 30, 2005

	Resource Enhance- ment and Protection	County Recorder's Records Management
Revenues:		
Tax increment financing	\$ -	-
Intergovernmental	8,625	-
Charges for service	-	2,139
Use of money and property	2,083	160
Miscellaneous	-	-
Total revenues	10,708	2,299
Expenditures:		
Operating:		
Public safety and legal services	-	-
Governmental services to residents	-	3,000
Debt service	-	-
Capital projects	-	-
Total expenditures	-	3,000
Excess (deficiency) of revenues over (under) expenditures	10,708	(701)
Other financing sources (uses):		
Operating transfers in	-	-
Operating transfers out	-	-
Total other financing sources (uses)	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	10,708	(701)
Fund balances beginning of year	96,500	9,143
Fund balances end of year	\$ 107,208	8,442

See accompanying independent auditor's report.

Special Revenue						
County Recorder's Electronic Transaction Fee	Special Law Enforcement	Urban Renewal	Conservation Land Acquisition Trust	Capital Projects		Total
-	-	177,752	-	-		177,752
-	-	37,131	-	-		45,756
-	-	-	100	-		2,239
391	60	3,788	8,575	-		15,057
-	-	-	13,948	-		13,948
391	60	218,671	22,623	-		254,752
-	135	-	-	-		135
24,049	-	-	-	-		27,049
-	-	166,302	-	-		166,302
-	-	-	24,893	-		24,893
24,049	135	166,302	24,893	-		218,379
(23,658)	(75)	52,369	(2,270)	-		36,373
-	-	3,401	-	-		3,401
-	-	-	-	(3,401)		(3,401)
-	-	3,401	-	(3,401)		-
(23,658)	(75)	55,770	(2,270)	(3,401)		36,373
36,975	3,957	167,141	233,266	3,401		550,383
13,317	3,882	222,911	230,996	-		586,756

Adair County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2005

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	2,055	46,352	104,180
Other County officials	5,754	-	-	-
Receivables:				
Property tax:				
Delinquent	-	338	516	16,714
Succeeding year	-	93,000	142,000	4,506,000
Special assessments	-	-	-	-
Total assets	\$ 5,754	95,393	188,868	4,626,894
Liabilities				
Accounts payable	\$ -	-	167	-
Salaries and benefits payable	-	-	1,193	-
Due to other governments	5,754	95,393	182,243	4,626,894
Trusts payable	-	-	-	-
Compensated absences	-	-	5,265	-
Total liabilities	\$ 5,754	95,393	188,868	4,626,894

See accompanying independent auditor's report.

Community Colleges	Corpor- ations	Townships	County Hospital	Auto License and Use Tax	Other	Total
4,654	20,975	4,063	17,753	163,939	58,156	422,127
-	-	-	-	-	-	5,754
780	8,571	674	2,883	-	5	30,481
217,000	1,172,000	202,000	792,000	-	1,000	7,125,000
-	-	-	-	-	18,262	18,262
222,434	1,201,546	206,737	812,636	163,939	77,423	7,601,624
-	-	-	-	-	-	167
-	-	-	-	-	-	1,193
222,434	1,201,546	206,737	812,636	163,939	29,680	7,547,256
-	-	-	-	-	47,743	47,743
-	-	-	-	-	-	5,265
222,434	1,201,546	206,737	812,636	163,939	77,423	7,601,624

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

Year ended June 30, 2005

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 5,096	94,285	185,341	4,729,319
Additions:				
Property and other county tax	-	91,861	139,943	4,483,139
State tax credits	-	5,890	9,267	298,439
Office fees and collections	161,196	-	-	-
Electronic transaction fees	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	55,222	-	-	-
Miscellaneous	-	-	1,145	-
Total additions	216,418	97,751	150,355	4,781,578
Deductions:				
Agency remittances:				
To other funds	83,780	-	-	-
To other governments	76,758	96,643	146,828	4,884,003
Trusts paid out	55,222	-	-	-
Total deductions	215,760	96,643	146,828	4,884,003
Balances end of year	\$ 5,754	95,393	188,868	4,626,894

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	County Hospital	Auto License and Use Tax	Other	Total
212,402	1,191,828	195,570	813,960	137,385	50,619	7,615,805
215,061	1,529,141	198,762	782,858	-	1,299	7,442,064
13,318	91,770	12,334	50,882	-	84	481,984
-	-	-	-	-	-	161,196
-	-	-	-	-	1,944	1,944
-	-	-	-	1,942,699	-	1,942,699
-	-	-	-	-	11,699	11,699
-	-	-	-	-	153,203	208,425
-	-	-	-	-	12,462	13,607
228,379	1,620,911	211,096	833,740	1,942,699	180,691	10,263,618
-	-	-	-	52,842	-	136,622
218,347	1,611,193	199,929	835,064	1,863,303	151,685	10,083,753
-	-	-	-	-	2,202	57,424
218,347	1,611,193	199,929	835,064	1,916,145	153,887	10,277,799
222,434	1,201,546	206,737	812,636	163,939	77,423	7,601,624

Schedule 5

Adair County

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

For the Last Six Years

	Modified Accrual Basis					
	2005	2004	2003	2002	2001	2000
Revenues:						
Property and other county tax	\$ 2,759,307	2,529,614	2,406,413	2,302,360	1,811,236	1,696,992
Tax increment financing	177,752	131,004	93,929	63,977	46,175	-
Interest and penalty on property tax	36,769	30,289	30,345	30,068	31,858	25,741
Intergovernmental	3,260,303	3,165,275	3,215,237	3,365,886	3,235,033	3,826,423
Licenses and permits	7,082	9,030	7,572	6,717	6,580	4,697
Charges for service	189,774	224,647	167,700	159,442	150,152	169,383
Use of money and property	86,316	111,041	148,491	222,016	266,385	285,426
Miscellaneous	59,825	51,068	36,438	26,973	43,170	34,773
Total	\$ 6,577,128	6,251,968	6,106,125	6,177,439	5,590,589	6,043,435
Expenditures:						
Operating:						
Public safety and legal services	\$ 886,203	819,585	764,704	757,693	733,758	664,811
Physical health and social services	199,768	246,061	226,891	246,771	268,417	239,313
Mental health	622,373	638,398	711,682	712,624	664,716	613,151
County environment and education	274,487	304,014	328,902	368,066	366,393	375,773
Roads and transportation	3,229,715	3,471,194	3,429,358	3,306,388	3,366,660	3,211,974
Governmental services to residents	256,920	220,558	237,891	239,767	237,776	201,451
Administration	512,160	517,903	492,307	494,149	421,497	468,338
Debt service	166,302	187,774	131,275	134,048	93,562	53,875
Capital projects	299,472	109,285	296,527	706,042	66,398	567,190
Total	\$ 6,447,400	6,514,772	6,619,537	6,965,548	6,219,177	6,395,876

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Officials of Adair County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Adair County, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated September 28, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is 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 that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2005 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.

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

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


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2005

Adair County

Schedule of Findings

Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. In the County Treasurer's Office, bank accounts were not reconciled promptly at the end of each month by an individual who does not sign checks, handle or record cash.

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

Response – Segregation of duties is almost impossible in a four person office, given vacations, sick leave, etc. I will further review internal control procedures. I have reviewed the deputy's bank reconciliations, but I have failed to document these reviews. I plan to set up a formal review procedure using Excel that records and documents each reconciliation review.

Conclusion – Response accepted.

- (B) Information Systems – The following weaknesses in the County's computer based systems were noted:

- Computer passwords are shared. Also, there is no written policy prohibiting the sharing of passwords.
- User profiles are not reviewed and user IDs are not changed after an employee changes duties.
- Users are not restricted to programs for which they have legitimate need.

Recommendation – The County should develop written policies addressing the above items in order to improve the County's control over computer based systems.

Response – The County will try to develop policies.

Conclusion – Response accepted.

Adair County

Schedule of Findings

Year ended June 30, 2005

- (C) Receipts – Proper supporting documentation for certain receipts is not maintained by the County Treasurer. Also, voided receipts and related documentation were not always retained.

Recommendation – Proper supporting documentation for all receipts should be maintained. Voided receipts and related supporting documentation should always be retained.

Response – I will instruct all departments to provide the date or time period of each receipt and to provide needed documentation if appropriate.

The standard operating procedure is to maintain voided receipts and the documentation for true voids as well as making a record of computer caused lost receipt numbers. I will review these policies and procedures with the staff and be more thorough in my reviews.

Conclusion – Response accepted.

- (D) Vacation Payout – The Sheriff's Department Union agreement states "All vacations must be taken during the twelve month period following the employee's anniversary date of qualifying employment." Employees receive a payout for any vacation balance remaining after this twelve month period. During fiscal year 2005, the County issued a vacation payout of \$576 for unused vacation remaining on the anniversary date.

In a letter dated September 9, 2005, the County Attorney states there is no provision in any of the personnel policies for monetary reimbursement of unused vacation.

Recommendation – Since there is no provision in the Union agreement for monetary reimbursement of unused vacation, the County should not issue vacation payouts for unused vacation remaining on the anniversary date.

Responses –

Board of Supervisors – Should follow union policy.

County Sheriff – I will comply with your recommendation.

Conclusion – Responses accepted.

- (E) Centralized Payroll – Vacation, sick leave and compensatory time are maintained by individual departments. Leave balances and compensatory time are not maintained on the centralized payroll system.

Recommendation – All payroll records relating to leave time should be maintained on a consistent and uniform basis to document potential liabilities of the County.

Adair County

Schedule of Findings

Year ended June 30, 2005

Timesheets prepared by all personnel in all departments, salaried as well as hourly, should be submitted to the County Auditor's office prior to processing payroll each pay period. The timesheets should be signed by the employee and should be reviewed and signed by the employee's immediate supervisor or the County officer or department head prior to submission. The timesheets should support all hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours, and personal days.

Response – The Auditor's Office began this process with the payroll dated September 23, 2005.

Conclusion – Response accepted.

- (F) Evaluations – Written evaluations of employee job performance are not documented by the County Treasurer and the County Engineer.

Recommendation – Written evaluations of employee job performance should be documented on a regular basis for all employees.

Responses –

County Treasurer – Employees have received verbal performance evaluations. I conduct frequent private one-on-one discussions with each employee about their work. I believe that written evaluations have very limited value in a small stable office environment. However, I did do written evaluations prior to this past fiscal year, and I will do written evaluations in this current fiscal year.

County Engineer – Written evaluations will be done in fiscal year 2006.

Conclusion – Responses accepted.

- (G) Cellular Phones – The County has cellular phones for use by various employees. The County does not have a written policy regarding use of these cellular phones.

Recommendation – The Board should adopt a written policy governing the use of County owned cellular phones. In addition, cellular phone bills should be scrutinized for proper usage by the County Auditor's Office and the Board of Supervisors prior to payment.

Response – The Board will consult with the County Attorney to develop a policy to consider.

Conclusion – Response accepted.

Adair County

Schedule of Findings

Year ended June 30, 2005

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 did not exceed amounts budgeted.
- (3) 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.
- (4) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (5) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Lois Hoadley, Part-time employee at the Sheriff’s Office and Sister-in-law of a Board of Supervisor Member	Meal delivery to County Jail	\$ 3,210

In the opinion of the County Attorney, the transactions with Lois Hoadley may represent a conflict of interest in accordance with Chapter 331.342(4) of the Code of Iowa since the contract was not entered into through competitive bidding.

Effective January 1, 2005, the meal delivery services were added to the employee’s work description. The meal hauling contract was cancelled effective January 1, 2005.

- (6) 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 insure the coverage is adequate for current operations.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (8) 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.
- (9) 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).

Adair County

Schedule of Findings

Year ended June 30, 2005

- (10) County Ordinances – The County Board of Supervisors has not completed a compilation of County ordinances.

Recommendation – This compilation of County ordinances should be prepared and published as required by Section 331.302(9) of the Code of Iowa.

Response – The County will prepare the compilation of ordinances soon.

Conclusion – Response accepted.

- (11) Sheriff Reserve Officers – Chapter 80D.11 of the Code of Iowa defines County Sheriff reserve peace officers as employees of the County. The funds for the County Sheriff reserve officers are maintained in separate checking and savings accounts and are not accounted for in a Special Revenue Fund of the County.

Recommendation – The County should establish a Special Revenue Fund to account for the funds and activity of the County Sheriff reserve officers. The current checking and savings accounts maintained separately by the reserve officers should be closed and the funds should be deposited with the County Treasurer into the Special Revenue Fund.

Response – The Auditor, Sheriff, and Reserve officers will work together to set up the fund recommended.

Conclusion – Response accepted.

- (12) 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.

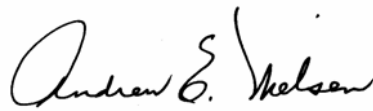
Disbursements during the year ended June 30, 2005 for the County Extension Office did not exceed the amount budgeted.

Adair County

Staff

This audit was performed by:

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