



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ December 1, 2008

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

The County had local tax revenue of \$13,097,126 for the year ended June 30, 2008, which included \$664,804 in tax credits from the state. The County forwarded \$9,995,170 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$3,101,956 of the local tax revenue to finance County operations, a 5 percent increase over the prior year. Other revenues included charges for service of \$265,540, operating grants, contributions and restricted interest of \$3,210,040, capital grants, contributions and restricted interest of \$486,453, tax increment financing of \$224,152, local option sales tax of \$384,633, unrestricted investment earnings of \$142,543 and other general revenues of \$55,746.

Expenses for County operations totaled \$6,496,510, a 2 percent decrease from the prior year. Expenses included \$3,425,421 for roads and transportation, \$899,924 for mental health and \$859,013 for public safety and legal services.

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

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ADAIR COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2008

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Adair County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Dolan	Board of Supervisors	Jan 2009
Robert Grasty	Board of Supervisors	Jan 2009
Bill Lamb	Board of Supervisors	Jan 2009
Steven Shelley	Board of Supervisors	Jan 2011
Cliff Sheriff	Board of Supervisors	Jan 2011
Jenice K. Wallace	County Auditor	Retired
Melinda Schaefer (Appointed)	County Auditor	Nov 2008
Ron Herr	County Treasurer	Deceased
Brenda Wallace (Appointed)	County Treasurer	Nov 2008
Janelle Schneider	County Recorder	Jan 2011
Randy Marchant	County Sheriff	Retired
Brad Newton (Appointed)	County Sheriff	Nov 2008
Michael Maynes	County Attorney	Jan 2011
Kenneth E. Huddleson	County Assessor	Jan 2014

Adair County



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Independent Auditor's Report

To the Officials of Adair County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Adair County, Iowa, as of and for the year ended June 30, 2008, 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, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2008 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 13 and 44 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adair County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 27, 2008

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, 2008. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 5.2%, or approximately \$388,000, from fiscal 2007 to fiscal 2008. Operating grants, contributions and restricted interest increased approximately \$345,000, property tax increased approximately \$143,000 and capital grants, contributions and restricted interest decreased approximately \$103,000.
- The County's expenses for governmental activities decreased 1.9%, or approximately \$124,000, from fiscal 2007 to fiscal 2008. Roads and transportation expenses decreased approximately \$197,000, governmental services to residents expenses decreased approximately \$95,000, administration expenses increased approximately \$106,000 and mental health expenses increased approximately \$67,000.
- The County's net assets increased 11.6%, or approximately \$1,374,000, from June 30, 2007 to June 30, 2008.

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 nonmajor 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 and 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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

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

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

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for emergency management services 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. Adair County's combined net assets strengthened from a year ago, increasing from approximately \$11,817,000 to approximately \$13,191,000. The analysis below shows the changes in the net assets of governmental activities from a year ago.

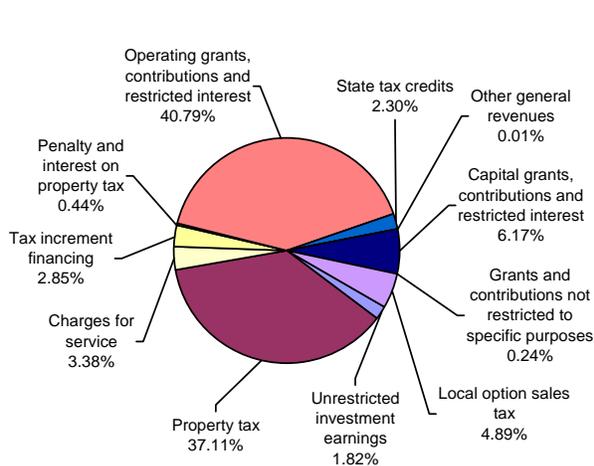
Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2008	2007
Current and other assets	\$ 7,665	6,677
Capital assets	9,517	9,348
Total assets	<u>17,182</u>	<u>16,025</u>
Long-term liabilities	414	636
Other liabilities	3,577	3,573
Total liabilities	<u>3,991</u>	<u>4,209</u>
Net assets:		
Invested in capital assets	9,517	9,348
Restricted	3,119	2,129
Unrestricted	555	340
Total net assets	<u>\$ 13,191</u>	<u>11,817</u>

Net assets of Adair County's governmental activities increased approximately \$1,374,000 (\$13,191,000 compared to \$11,817,000). The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment). Net assets invested in capital assets increased approximately \$169,000. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Restricted net assets increased approximately \$990,000, or 46.5%, from fiscal year 2007 to fiscal year 2008. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, is approximately \$555,000. Unrestricted net assets increased approximately \$215,000, or 63.2%, from fiscal year 2007 to fiscal 2008.

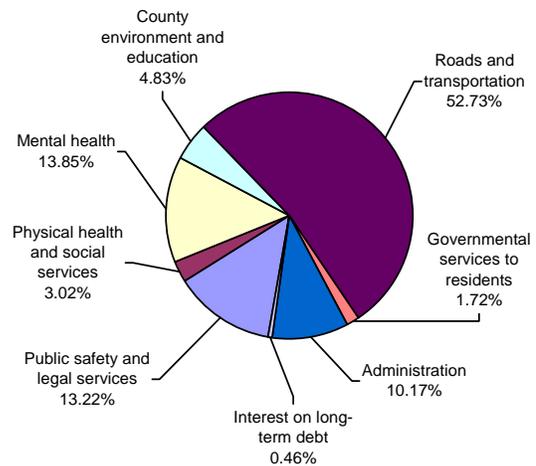
Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2008	2007
Revenues:		
Program revenues:		
Charges for service	\$ 266	285
Operating grants, contributions and restricted interest	3,210	2,865
Capital grants, contributions and restricted interest	486	589
General revenues:		
Property tax	2,921	2,778
Tax increment financing	224	228
Penalty and interest on property tax	35	41
State tax credits	181	186
Local option sales tax	385	331
Grants and contributions not restricted to specific purposes	19	20
Unrestricted investment earnings	143	157
Other general revenues	1	3
Total revenues	7,871	7,483
Program expenses:		
Public safety and legal services	859	849
Physical health and social services	196	206
Mental health	900	833
County environment and education	314	302
Roads and transportation	3,425	3,622
Governmental services to residents	112	207
Administration	661	555
Interest on long-term debt	30	47
Total expenses	6,497	6,621
Increase in net assets	1,374	862
Net assets beginning of year	11,817	10,955
Net assets end of year	\$ 13,191	11,817

Revenues by Source



Expenses by Function



Adair County's net assets of governmental activities increased approximately \$1,374,000 during the year. Revenues for governmental activities increased approximately \$388,000 over the prior year, with operating grants, contributions and restricted interest up from the prior year approximately \$345,000, or 12%, due to increased state funding for mental health operations of approximately \$286,000 and an increase in bridge replacement project reimbursements of approximately \$26,000. Property tax revenue also increased approximately \$143,000, due to increased gas and electric utility property tax replacement revenue resulting from additional transmission lines placed in service. These increases were offset by a decrease in capital grants, contributions and restricted interest of approximately \$103,000, or 17.5%, due to less farm-to-market projects being contributed to the County by the Iowa Department of Transportation.

The cost of all governmental activities this year was \$6.5 million compared to \$6.6 million last year. However, as shown in the Statement of Activities on page 17, the amount taxpayers ultimately financed for these activities was only \$2.5 million because some of the cost was paid by those directly benefited from the programs (\$266,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,696,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for service, increased in 2008 from approximately \$3,739,000 to approximately \$3,962,000. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$3,909,000 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Adair County completed the year, its governmental funds reported a combined fund balance of approximately \$4.03 million, an increase of approximately \$987,000 above last year's total of \$3.043 million. The following are reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues exceeded expenditures. The ending fund balance increased approximately \$55,000 over the prior year to approximately \$958,000. General Fund revenues increased due to property tax and charges for service, while expenditures increased primarily due to administration expenditures.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$900,000, an increase of 8% from the prior year. The increase is primarily due to a \$29,000 increase in chronic mental illness expenditures and a \$38,000 increase in mental retardation expenditures. The Special Revenue, Mental Health Fund balance at year end increased approximately \$21,000 from the prior year to a negative of approximately \$14,000. Clients continue to use waiver programs funded in part with state and federal dollars and the County received additional state funding to support mental health operations.
- The Special Revenue, Rural Services Fund ending fund balance increased approximately \$74,000 over the prior year to approximately \$219,000, due primarily to a decrease in roads and transportation expenditures related to snow and ice storms occurring in fiscal year 2007.
- Special Revenue, Secondary Roads Fund expenditures decreased approximately \$314,000 from the prior year due to a decrease in capital projects expenditures of approximately \$223,000. The Secondary Roads Fund balance at year end increased approximately \$519,000, or 45.4%, to approximately \$1,662,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, Adair County amended its budget two times. The first amendment was made in January 2008 and resulted in an increase in budgeted disbursements of approximately \$67,000 related to increased administration expenses.

The second amendment was made in May 2008. This amendment increased receipts approximately \$406,000, primarily for anticipated FEMA funding, additional bridge replacement reimbursements, an increase in the County Recorder's real estate transfers and passports and increases in secondary roads reimbursements from private sources. The amendment also increased expenditures approximately \$316,000 due to increased Mental Health Fund expenditures and the early redemption of outstanding debt.

The County's receipts were \$413,892 more than budgeted. Intergovernmental receipts were \$328,992 more than budgeted due to federal bridge replacement grant money.

Total disbursements were \$1,058,120 less than budgeted. Actual disbursements for roads and transportation, capital projects and physical health and social services functions were \$542,817, \$340,882 and \$47,213, respectively, less than budgeted. These differences were due to delayed secondary roads projects, reduced road maintenance costs, a conservation capital project not being started and residents of the County receiving fewer services funded by the County.

The County did not exceed the budgeted amounts in any of the function areas for the year ended June 30, 2008. Disbursements exceeded the amount budgeted in the mental health function and appropriated to the mental health department prior to a budget amendment by the Board of Supervisors.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, Adair County had approximately \$9,517,000 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2008	2007
Land	\$ 336	336
Land, road network	34	34
Construction in progress	313	322
Buildings and improvements	458	471
Improvements other than buildings	99	105
Equipment and vehicles	2,079	2,245
Infrastructure, road network	6,198	5,835
Total	<u>\$ 9,517</u>	<u>9,348</u>
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation	\$ 270	
Bridge construction projects	272	
Replacement of motor grader	182	
Total	<u>\$ 724</u>	

The County had depreciation expense of \$471,685 in FY08 and total accumulated depreciation of approximately \$3.7 million at June 30, 2008. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2008, Adair County had approximately \$296,000 in capital loan notes outstanding, a decrease of approximately \$206,000, or 41.1%, from June 30, 2007.

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 \$25.3 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Adair County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates and fees charged for various County activities. In an ongoing effort to maintain County services, the Adair County Board of Supervisors is committed to limiting expenditure increases, using excess fund balances and reducing funding to non-mandated programs to provide essential services for the citizens of Adair County.

The local option sales tax will generate funds to rebuild County bridges. Adair County has a large number of bridges, with many in need of repair or replacement. The local option sales tax will remain in effect for five more years. It has been estimated the County will receive \$368,000 in FY09.

Amounts available for appropriation in the operating budget are approximately \$8,125,000, an increase of 5.4% from the final 2008 budget. Intergovernmental receipts are expected to lead the increase due to a new federal bridge project.

If these estimates are realized, the County's budgetary operating balance is expected to decrease by the close of 2009.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Adair County

Basic Financial Statements

Exhibit A

Adair County
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 3,786,430
Receivables:	
Property tax:	
Delinquent	2,460
Succeeding year	2,995,000
Interest and penalty on property tax	3,068
Succeeding year tax increment financing	173,000
Accounts	1,875
Accrued interest	8,718
Due from other governments	263,191
Inventories	252,468
Prepaid items	179,140
Capital assets (net of accumulated depreciation)	9,517,074
Total assets	<u>17,182,424</u>
Liabilities	
Accounts payable	179,131
Accrued interest payable	2,659
Salaries and benefits payable	44,487
Due to other governments	183,063
Deferred revenue:	
Succeeding year property tax	2,995,000
Succeeding year tax increment financing	173,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital loan notes	55,858
Compensated absences	73,027
Portion due or payable after one year:	
Capital loan notes	240,000
Compensated absences	44,991
Total liabilities	<u>3,991,216</u>
Net Assets	
Invested in capital assets	9,517,074
Restricted for:	
Supplemental levy purposes	330,579
Secondary roads purposes	1,586,104
Other purposes	1,201,991
Unrestricted	555,460
Total net assets	<u>\$ 13,191,208</u>

See notes to financial statements.

Adair County

Statement of Activities

Year ended June 30, 2008

	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	\$ 859,013	26,646	12,626	-	(819,741)
Physical health and social services	196,164	6,886	55,165	-	(134,113)
Mental health	899,924	-	612,469	-	(287,455)
County environment and education	314,086	25,243	31,389	-	(257,454)
Roads and transportation	3,425,421	26,480	2,475,858	486,453	(436,630)
Governmental services to residents	111,618	165,350	2,593	-	56,325
Administration	660,162	14,935	475	-	(644,752)
Interest on long-term debt	30,122	-	19,465	-	(10,657)
Total	\$ 6,496,510	265,540	3,210,040	486,453	(2,534,477)
General Revenues:					
Property and other county tax levied for general purposes					2,921,455
Tax increment financing					224,152
Penalty and interest on property tax					35,038
State tax credits					180,501
Local option sales tax					384,633
Grants and contributions not restricted to specific purpose					19,359
Unrestricted investment earnings					142,543
Miscellaneous					1,349
Total general revenues					3,909,030
Change in net assets					1,374,553
Net assets beginning of year					11,816,655
Net assets end of year					\$ 13,191,208

See notes to financial statements.

Adair County
Balance Sheet
Governmental Funds

June 30, 2008

	General	Special	
		Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 880,105	176,368	221,206
Receivables:			
Property tax:			
Delinquent	1,768	310	382
Succeeding year	1,736,000	287,000	972,000
Interest and penalty on property tax	3,068	-	-
Succeeding year tax increment financing	-	-	-
Accounts	806	-	100
Accrued interest	7,871	-	-
Due from other funds	-	-	-
Due from other governments	9,305	-	355
Inventories	-	-	-
Prepaid items	99,249	-	281
Total assets	\$ 2,738,172	463,678	1,194,324
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 11,846	32,133	526
Salaries and benefits payable	14,217	183	2,443
Due to other funds	2,615	-	-
Due to other governments	10,919	157,766	48
Deferred revenue:			
Succeeding year property tax	1,736,000	287,000	972,000
Succeeding year tax increment financing	-	-	-
Other	4,836	310	382
Total liabilities	1,780,433	477,392	975,399
Fund balances:			
Reserved for:			
Supplemental levy purposes	330,328	-	-
Debt service	-	-	-
Unreserved, designated for:			
Three Mile structure repair	-	-	10,000
Courthouse repair and other capital projects	3,598	-	-
Sheriff's vehicle	23,000	-	-
Ambulance and equipment replacement	30,000	-	-
Unreserved, undesignated, reported in:			
General fund	570,813	-	-
Special revenue funds	-	(13,714)	208,925
Total fund balances	957,739	(13,714)	218,925
Total liabilities and fund balances	\$ 2,738,172	463,678	1,194,324

See notes to financial statements.

Revenue		
Secondary		
Roads	Nonmajor	Total
1,313,443	1,138,663	3,729,785
-	-	2,460
-	-	2,995,000
-	-	3,068
-	173,000	173,000
969	-	1,875
-	847	8,718
2,615	-	2,615
188,391	65,140	263,191
252,468	-	252,468
79,610	-	179,140
1,837,496	1,377,650	7,611,320
133,336	-	177,841
27,644	-	44,487
-	-	2,615
14,330	-	183,063
-	-	2,995,000
-	173,000	173,000
-	-	5,528
175,310	173,000	3,581,534
-	-	330,328
-	63,000	63,000
-	-	10,000
-	-	3,598
-	-	23,000
-	-	30,000
-	-	570,813
1,662,186	1,141,650	2,999,047
1,662,186	1,204,650	4,029,786
1,837,496	1,377,650	7,611,320

Adair County

Adair County

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

June 30, 2008

Total governmental fund balances (page 19)	\$ 4,029,786
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$13,245,408 and the accumulated depreciation is \$3,728,334.	9,517,074
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	5,528
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.	55,355
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.	<u>(416,535)</u>
Net assets of governmental activities (page 16)	<u><u>\$ 13,191,208</u></u>

See notes to financial statements.

Adair County

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

Year ended June 30, 2008

	General	Mental Health	Special Rural Services
Revenues:			
Property and other county tax	\$ 1,652,506	289,682	997,863
Tax increment financing	-	-	-
Local option sales tax	-	-	-
Interest and penalty on property tax	31,970	-	-
Intergovernmental	184,776	630,138	60,589
Licenses and permits	3,926	-	2,960
Charges for service	206,420	-	-
Use of money and property	137,086	-	100
Miscellaneous	4,635	615	31
Total revenues	2,221,319	920,435	1,061,543
Expenditures:			
Operating:			
Public safety and legal services	871,125	-	-
Physical health and social services	187,245	-	8,919
Mental health	-	899,924	-
County environment and education	222,186	-	80,053
Roads and transportation	-	-	86,048
Governmental services to residents	190,793	-	2,139
Administration	652,064	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	2,123,413	899,924	177,159
Excess (deficiency) of revenues over (under) expenditures	97,906	20,511	884,384
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(43,160)	-	(810,238)
Total other financing sources (uses)	(43,160)	-	(810,238)
Net change in fund balances	54,746	20,511	74,146
Fund balances beginning of year	902,993	(34,225)	144,779
Fund balances end of year	\$ 957,739	(13,714)	218,925

See notes to financial statements.

Revenue		
Secondary		
Roads	Nonmajor	Total
-	-	2,940,051
-	224,152	224,152
-	384,633	384,633
-	-	31,970
2,667,379	27,917	3,570,799
1,110	-	7,996
1,003	2,547	209,970
-	31,674	168,860
38,371	13,975	57,627
2,707,863	684,898	7,596,058
-	1,656	872,781
-	-	196,164
-	-	899,924
-	400	302,639
2,963,237	-	3,049,285
-	-	192,932
-	-	652,064
-	236,213	236,213
66,409	140,765	207,174
3,029,646	379,034	6,609,176
(321,783)	305,864	986,882
840,898	12,500	853,398
-	-	(853,398)
840,898	12,500	-
519,115	318,364	986,882
1,143,071	886,286	3,042,904
1,662,186	1,204,650	4,029,786

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, 2008

Net change in fund balances - Total governmental funds (page 23) \$ 986,882

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	\$ 412,432	
Capital assets contributed by the Iowa Department of Transportation	270,444	
Depreciation expense	<u>(471,685)</u>	211,191

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. (42,378)

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

Property tax	(2,950)	
Other	<u>(12,790)</u>	(15,740)

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. 206,096

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	15,723	
Interest on long-term debt	<u>(5)</u>	15,718

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. 12,784

Change in net assets of governmental activities (page 17) \$ 1,374,553

See notes to financial statements.

Adair County
 Statement of Net Assets
 Proprietary Fund

June 30, 2008

	<u>Internal Service - Employee Health Insurance</u>
Assets	
Cash and cash equivalents	\$ 56,645
Liabilities	
Accounts payable	<u>1,290</u>
Net Assets	
Unrestricted	<u>\$ 55,355</u>

See notes to financial statements.

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

Year ended June 30, 2008

		<u>Internal Service - Employee Health Insurance</u>
Operating revenues:		
Contributions from employer		\$ 18,860
Operating expenses:		
Medical claims	\$ 7,116	
Administrative fees	400	<u>7,516</u>
Operating income		11,344
Non-operating revenues:		
Interest income		<u>1,440</u>
Net income		12,784
Net assets beginning of year		<u>42,571</u>
Net assets end of year		<u><u>\$ 55,355</u></u>

See notes to financial statements.

Adair County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2008

	Internal Service - Employee Health Insurance
Cash flows from operating activities:	
Cash received from employer	\$ 18,860
Cash paid to suppliers for services	(9,226)
Net cash provided by operating activities	9,634
Cash flows from investing activities:	
Interest on investments	1,440
Net increase in cash and cash equivalents	11,074
Cash and cash equivalents beginning of year	45,571
Cash and cash equivalents end of year	\$ 56,645
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 11,344
Adjustment to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts payable	(1,710)
Net cash provided by operating activities	\$ 9,634

See notes to financial statements.

Adair County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2008

Assets

Cash and pooled investments:	
County Treasurer	\$ 416,746
Other county officials	4,008
Receivables:	
Property tax:	
Delinquent	10,464
Succeeding year	9,194,000
Special assessments	136,229
Prepaid expense	10,434
Total assets	<u>9,771,881</u>

Liabilities

Accounts payable	83
Salaries and benefits payable	637
Due to other governments	9,740,110
Trusts payable	18,754
Compensated absences	12,297
Total liabilities	<u>9,771,881</u>

Net assets \$ -

See notes to financial statements.

Adair County

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Adair County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: County Assessor's Conference Board, Three Mile Reservoir Agency, Adair County Sanitary Landfill and Recycling Center, County Emergency Management Commission and South Central Iowa Regional E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2007.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2008, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets acquired after July 1, 2003 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the County), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 65,000
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 and tax increment financing not collected within sixty days after year end and unspent grant proceeds.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable 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, 2008. 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 Internal Service, 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.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2008 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 \$486,334 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

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

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

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2008 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue: Secondary Roads	General	<u>\$ 2,615</u>

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

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	General	\$ 30,660
	Special Revenue: Rural Services	810,238
SIRWA Grid	General	<u>12,500</u>
Total		<u>\$ 853,398</u>

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 336,067	-	-	336,067
Land, road network	34,220	-	-	34,220
Construction in progress	321,684	478,315	487,259	312,740
Total capital assets not being depreciated	691,971	478,315	487,259	683,027
Capital assets being depreciated:				
Buildings	653,380	-	-	653,380
Improvements other than buildings	186,649	-	-	186,649
Equipment and vehicles	5,168,756	233,446	446,938	4,955,264
Infrastructure, road network	6,216,214	550,874	-	6,767,088
Total capital assets being depreciated	12,224,999	784,320	446,938	12,562,381
Less accumulated depreciation for:				
Buildings	181,826	13,982	-	195,808
Improvements other than buildings	82,105	5,996	-	88,101
Equipment and vehicles	2,923,559	264,318	312,060	2,875,817
Infrastructure, road network	381,219	187,389	-	568,608
Total accumulated depreciation	3,568,709	471,685	312,060	3,728,334
Total capital assets being depreciated, net	8,656,290	312,635	134,878	8,834,047
Governmental activities capital assets, net	\$ 9,348,261	790,950	622,137	9,517,074

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 21,978
County environment and education	21,746
Roads and transportation	418,710
Administration	9,251
Total depreciation expense - governmental activities	<u>\$ 471,685</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	\$ 10,919
Special Revenue:		
Mental Health	Services	157,766
Rural Services	Services	48
Secondary Roads	Services	14,330
		<u>172,144</u>
Total for governmental funds		<u>\$ 183,063</u>
Agency:		
County Assessor	Collections	\$ 212,191
Schools		5,374,488
Community Colleges		235,334
Corporations		2,160,132
Townships		248,378
County Hospital		1,065,284
Auto License and Use Tax		177,073
All other		267,230
Total for agency funds		<u>\$ 9,740,110</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Capital Loan Notes	Compensated Absences	Total
Balance beginning of year	\$ 501,954	133,741	635,695
Increases	-	105,831	105,831
Decreases	206,096	121,554	327,650
Balance end of year	<u>\$ 295,858</u>	<u>118,018</u>	<u>413,876</u>
Due within one year	<u>\$ 55,858</u>	<u>73,027</u>	<u>128,885</u>

Capital Loan Notes

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. During the year ended June 30, 2008, the County prepaid the scheduled principal payment of \$60,000 due during the year ending June 30, 2009 and the scheduled principal payment of \$65,000 due during the year ending June 30, 2010.

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 May 2001 notes are satisfied. During the year ended June 30, 2008, interest of \$8,217 and principal of \$81,096 were paid on the note. The balance remaining on the note at June 30, 2008 was \$55,858.

Details of the County's June 30, 2008 capital loan note indebtedness for which formal repayment schedules have been established are as follows:

Year Ending June 30,	Urban Renewal Revenue Notes		
	May 1, 2001		
	Interest Rate	Principal	Interest
2011	6.00%	\$ 70,000	14,400
2012	6.00	80,000	10,200
2013	6.00	90,000	5,400
Total		\$ 240,000	30,000

During the year ended June 30, 2008, the County retired \$125,000 of urban renewal revenue capital loan notes dated May 1, 2001.

The urban renewal revenue capital loan 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. 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.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the County is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$123,384, \$125,308 and \$123,630, 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 whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2008 were \$107,185.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$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 such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2008, no liability has been recorded in the County's financial statements. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

(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 County contributions and is administered by the County. The County assumes liability for claims up to the individual deduction limitations of \$1,000 and \$2,000 for single and family coverage, respectively.

Contributions to the Employee Health Insurance Fund are recorded as expenditures from the operating funds. The County's contribution for the year ended June 30, 2008 was \$18,860.

Amounts payable from the Employee Health Insurance Fund at June 30, 2008 total \$1,290, 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, 2008 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	\$ 3,000
Incurred claims (including claims incurred but not reported at June 30, 2008)	7,516
Payments on claims during the fiscal year	<u>(9,226)</u>
Unpaid claims end of year	<u>\$ 1,290</u>

(11) Deficit Fund Balance

The Special Revenue, Mental Health Fund had a deficit fund balance of (\$13,714) at June 30, 2008. The County Board of Supervisors will work with the CPC to find ways to stabilize fund balances in the mental health area.

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, 2008

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Property and other county tax	\$ 3,526,604	3,478,428	3,478,428	48,176
Interest and penalty on property tax	31,970	31,000	31,000	970
Intergovernmental	3,659,902	2,990,360	3,330,910	328,992
Licenses and permits	7,691	8,850	9,000	(1,309)
Charges for service	210,058	175,469	200,725	9,333
Use of money and property	174,006	148,956	162,956	11,050
Miscellaneous	57,241	14,850	40,561	16,680
Total receipts	<u>7,667,472</u>	<u>6,847,913</u>	<u>7,253,580</u>	<u>413,892</u>
Disbursements:				
Public safety and legal services	881,540	910,196	913,196	31,656
Physical health and social services	209,630	251,692	256,843	47,213
Mental health	878,128	789,240	879,176	1,048
County environment and education	304,591	323,475	323,475	18,884
Roads and transportation	3,081,816	3,471,333	3,624,633	542,817
Governmental services to residents	191,669	218,535	218,635	26,966
Administration	658,546	665,197	703,599	45,053
Debt service	236,213	210,973	239,814	3,601
Capital projects	210,118	486,000	551,000	340,882
Total disbursements	<u>6,652,251</u>	<u>7,326,641</u>	<u>7,710,371</u>	<u>1,058,120</u>
Excess (deficiency) of receipts over (under) disbursements	1,015,221	(478,728)	(456,791)	1,472,012
Other financing sources, net	-	3,000	3,000	(3,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,015,221	(475,728)	(453,791)	1,469,012
Balance beginning of year	<u>2,714,564</u>	<u>2,673,306</u>	<u>3,064,882</u>	<u>(350,318)</u>
Balance end of year	<u>\$ 3,729,785</u>	<u>2,197,578</u>	<u>2,611,091</u>	<u>1,118,694</u>

See accompanying independent auditor's report.

Adair County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2008

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 7,667,472	(71,414)	7,596,058
Expenditures	6,652,251	(43,075)	6,609,176
Net	1,015,221	(28,339)	986,882
Beginning fund balances	2,714,564	328,340	3,042,904
Ending fund balances	\$ 3,729,785	300,001	4,029,786

See accompanying independent auditor's report.

Adair County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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

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

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund and the Special Revenue Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$383,730. 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, 2008, disbursements did not exceed the amounts budgeted or the amounts appropriated. Disbursements exceeded the amount budgeted in the mental health function and appropriated to the mental health department prior to a budget amendment by the Board of Supervisors.

Other Supplementary Information

Adair County
 Combining Balance Sheet
 Nonmajor Special Revenue Funds

June 30, 2008

	Resource Enhance- ment and Protection	County Recorder's Records Management	Sheriff's Reserve
Assets			
Cash and pooled investments	\$ 150,723	8,304	1,254
Receivables:			
Succeeding year tax increment financing	-	-	-
Accrued interest	354	-	-
Due from other governments	-	-	-
	Total assets	8,304	1,254
Liabilities and Fund Equity			
Liabilities:			
Deferred revenue:			
Succeeding year tax increment financing	\$ -	-	-
Fund equity:			
Fund balances:			
Reserved for debt service	-	-	-
Unreserved, undesignated	151,077	8,304	1,254
Total fund equity	151,077	8,304	1,254
	Total liabilities and fund equity	8,304	1,254

See accompanying independent auditor's report.

Special Law Enforcement	Urban Renewal	Local Option Sales Tax	SIRWA Grid	Conservation Land Acquisition	Total
4,326	138,429	483,324	39,825	312,478	1,138,663
-	173,000	-	-	-	173,000
-	-	-	-	493	847
-	-	65,140	-	-	65,140
4,326	311,429	548,464	39,825	312,971	1,377,650
-	173,000	-	-	-	173,000
-	63,000	-	-	-	63,000
4,326	75,429	548,464	39,825	312,971	1,141,650
4,326	138,429	548,464	39,825	312,971	1,204,650
4,326	311,429	548,464	39,825	312,971	1,377,650

Adair County
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2008

	Resource Enhance- ment and Protection	County Recorder's Records Management	Sheriff's Reserve
Revenues:			
Tax increment financing	\$ -	-	-
Local option sales tax	-	-	-
Intergovernmental	12,345	-	860
Charges for service	-	2,382	-
Use of money and property	5,544	193	61
Miscellaneous	-	-	475
Total revenues	<u>17,889</u>	<u>2,575</u>	<u>1,396</u>
Expenditures:			
Operating:			
Public safety and legal services	-	-	1,656
County environment and education	400	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	<u>400</u>	<u>-</u>	<u>1,656</u>
Excess (deficiency) of revenues over (under) expenditures	17,489	2,575	(260)
Other financing sources:			
Operating transfers in	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	17,489	2,575	(260)
Fund balances beginning of year	<u>133,588</u>	<u>5,729</u>	<u>1,514</u>
Fund balances end of year	<u>\$ 151,077</u>	<u>8,304</u>	<u>1,254</u>

See accompanying independent auditor's report.

Special Law Enforcement	Urban Renewal	Local Option Sales Tax	SIRWA Grid	Conservation Land Acquisiton	Total
-	224,152	-	-	-	224,152
-	-	384,633	-	-	384,633
-	14,712	-	-	-	27,917
-	-	-	-	165	2,547
124	5,465	10,484	1,076	8,727	31,674
-	-	-	-	13,500	13,975
124	244,329	395,117	1,076	22,392	684,898
-	-	-	-	-	1,656
-	-	-	-	-	400
-	236,213	-	-	-	236,213
-	-	140,765	-	-	140,765
-	236,213	140,765	-	-	379,034
124	8,116	254,352	1,076	22,392	305,864
-	-	-	12,500	-	12,500
124	8,116	254,352	13,576	22,392	318,364
4,202	130,313	294,112	26,249	290,579	886,286
4,326	138,429	548,464	39,825	312,971	1,204,650

Adair County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2008

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,933	56,601	91,401
Other County officials	4,008	-	-	-
Receivables:				
Property tax:				
Delinquent	-	109	173	5,087
Succeeding year	-	105,000	158,000	5,278,000
Special assessments	-	-	-	-
Prepaid expense	-	-	10,434	-
Total assets	\$ 4,008	107,042	225,208	5,374,488
Liabilities				
Accounts payable	\$ -	-	83	-
Salaries and benefits payable	-	-	637	-
Due to other governments	4,008	107,042	212,191	5,374,488
Trusts payable	-	-	-	-
Compensated absences	-	-	12,297	-
Total liabilities	\$ 4,008	107,042	225,208	5,374,488

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	County Hospital	Auto License and Use Tax	Other	Total
4,103	24,562	4,171	19,198	177,073	37,704	416,746
-	-	-	-	-	-	4,008
231	3,570	207	1,086	-	1	10,464
231,000	2,132,000	244,000	1,045,000	-	1,000	9,194,000
-	-	-	-	-	136,229	136,229
-	-	-	-	-	-	10,434
235,334	2,160,132	248,378	1,065,284	177,073	174,934	9,771,881
-	-	-	-	-	-	83
-	-	-	-	-	-	637
235,334	2,160,132	248,378	1,065,284	177,073	156,180	9,740,110
-	-	-	-	-	18,754	18,754
-	-	-	-	-	-	12,297
235,334	2,160,132	248,378	1,065,284	177,073	174,934	9,771,881

Adair County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2008

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 4,961	103,996	225,634	4,909,575
Additions:				
Property and other county tax	-	105,095	158,847	5,296,157
State tax credits	-	6,272	9,942	296,413
Office fees and collections	191,103	-	-	-
Electronic transaction fees	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	49,628	-	-	-
Miscellaneous	-	-	551	-
Total additions	240,731	111,367	169,340	5,592,570
Deductions:				
Agency remittances:				
To other funds	101,235	-	-	-
To other governments	90,822	108,321	169,766	5,127,657
Trusts paid out	49,627	-	-	-
Total deductions	241,684	108,321	169,766	5,127,657
Balances end of year	\$ 4,008	107,042	225,208	5,374,488

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	County Hospital	Auto License and Use Tax	Other	Total
219,439	1,285,966	215,070	1,027,985	181,945	52,293	8,226,864
232,266	2,421,014	245,051	1,051,246	-	1,191	9,510,867
13,335	82,590	13,366	62,312	-	73	484,303
-	-	-	-	-	-	191,103
-	-	-	-	-	2,390	2,390
-	-	-	-	2,134,750	-	2,134,750
-	-	-	-	-	128,102	128,102
-	-	-	-	-	102,088	151,716
-	-	-	-	-	25,963	26,514
245,601	2,503,604	258,417	1,113,558	2,134,750	259,807	12,629,745
-	-	-	-	83,339	-	184,574
229,706	1,629,438	225,109	1,076,259	2,056,283	137,166	10,850,527
-	-	-	-	-	-	49,627
229,706	1,629,438	225,109	1,076,259	2,139,622	137,166	11,084,728
235,334	2,160,132	248,378	1,065,284	177,073	174,934	9,771,881

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

For the Last Nine Years

	2008	2007	2006
Revenues:			
Property and other county tax	\$ 2,940,051	2,787,863	2,811,648
Tax increment financing	224,152	228,134	197,312
Local option sales tax	384,633	331,171	288,283
Interest and penalty on property tax	31,970	24,795	30,144
Intergovernmental	3,570,799	3,253,022	3,698,104
Licenses and permits	7,996	5,892	8,773
Charges for service	209,970	187,939	194,725
Use of money and property	168,860	192,220	145,577
Miscellaneous	57,627	59,213	56,182
Total	\$ 7,596,058	7,070,249	7,430,748
Expenditures:			
Operating:			
Public safety and legal services	\$ 872,781	848,714	838,304
Physical health and social services	196,164	205,790	187,905
Mental health	899,924	832,900	738,628
County environment and education	302,639	297,218	282,131
Roads and transportation	3,049,285	3,208,317	3,689,971
Governmental services to residents	192,932	208,987	283,523
Administration	652,064	534,470	532,093
Debt service	236,213	392,157	204,537
Capital projects	207,174	511,154	707,302
Total	\$ 6,609,176	7,039,707	7,464,394

See accompanying independent auditor's report.

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

Adair County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Officials of 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, 2008, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated October 27, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of

non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 27, 2008

Adair County
Schedule of Findings
Year ended June 30, 2008

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Adair County

Schedule of Findings

Year ended June 30, 2008

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements exceeded the amount budgeted in the mental health function and mental health department prior to a budget amendment by the Board of Supervisors.

Although the Board of Supervisors acted to increase appropriations to certain departments, the appropriation changes were made after disbursements had exceeded the appropriation.

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

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

Response – The County will comply with Chapter 331.435 to amend the budget, when needed, before disbursements are allowed as to not exceed the adopted budget.

Conclusion – Response accepted.

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

Name, Title, and Business Connection	Transaction Description	Amount
Rick Mikkelsen, Secondary Roads Superintendent, son-in-law is part owner of R&D Services	Diesel fuel and motorgrader parts	\$ 19,559

In accordance with Chapter 331.3421(10) of the Code of Iowa, the purchase of diesel fuel and motorgrader parts may represent a conflict of interest since the transactions exceeded \$1,500 during the fiscal year.

Adair County

Schedule of Findings

Year ended June 30, 2008

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

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

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- (8) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (9) County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2008 for the County Extension Office did not exceed the amount budgeted.

- (10) Deficit Fund Balance – The Special Revenue, Mental Health Fund had a deficit fund balance of \$13,714 at June 30, 2008.

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

Response – The County Board will work with the CPC to find ways to stabilize fund balances in the mental health area.

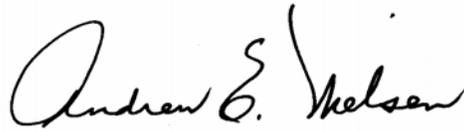
Conclusion – Response accepted.

Adair County

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Tammy A. Hollingsworth, Senior Auditor II
Mike D. Eckard, Staff Auditor
Shelley M. Klingbeil, Staff Auditor
Gelu Sherpa, Staff Auditor
Stephanie A. Sissel, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State