



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE

December 10, 2004

Contact: Andy Nielsen
515/281-5834

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

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$10,342,183 for the year ended June 30, 2004, which included \$656,635 in tax credits from the state. The County forwarded \$7,654,729 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$2,687,454 of the local tax revenue to finance County operations. Other revenues included charges for service of \$331,317, operating grants, contributions and restricted interest of \$2,947,161, capital grants, contributions and restricted interest of \$1,459,984, tax increment financing revenues of \$131,004, unrestricted investment earnings of \$85,736 and other general revenues of \$89,512.

Expenses for County operations totaled \$6,113,191. Expenses included \$3,298,789 for roads and transportation, \$810,917 for public safety and legal services and \$638,398 for mental health.

A copy of the audit report is available for review in the Office of Auditor of State and the County Auditor's office.

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ADAIR COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2004

Table of Contents

		Page
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	16
Statement of Activities	B	17
Governmental Fund Financial Statements:		
Balance Sheet	C	18-19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	24
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	25
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	26
Statement of Cash Flows	I	27
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Assets and Liabilities – Agency Funds	J	28
Notes to Financial Statements		29-42
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds		44-45
Budget to GAAP Reconciliation		46
Notes to Required Supplementary Information – Budgetary Reporting		47
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	50-51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	52-53
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	3	54-55
Combining Schedule of Changes in Fiduciary Assets and Liabilities	4	56-57
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	5	58
Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting		59-60
Schedule of Findings		61-64
Staff		65

Adair County

Officials

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

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, 2004, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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, 2004, 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.

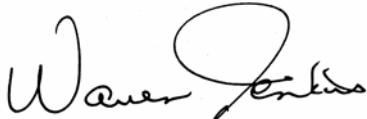
As described in Note 11 to the financial statements, during the year ended June 30, 2004, Adair County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2004 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 44 through 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed 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 four years ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 30, 2004

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, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because Adair County is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Governmental fund revenues increased 2%, or approximately \$146,000, from fiscal 2003 to fiscal 2004. Property taxes and other county tax increased 5%, or approximately \$123,000.
- Governmental fund expenditures decreased 2%, or approximately \$105,000. Roads and transportation expenditures increased by approximately \$42,000 and capital projects expenditures decreased approximately \$187,000.
- Net assets increased 32%, or approximately \$1,619,000, from June 30, 2003 to June 30, 2004.

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 Capital Projects Funds and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below shows the county's total net assets at June 30, 2004.

Net Assets of Governmental Activities (Expressed in Thousands)	
Current and other assets	\$ 6,419
Capital assets	4,913
Total assets	<u>11,332</u>
Long-term liabilities	1,230
Other liabilities	3,446
Total liabilities	<u>4,676</u>
Net assets:	
Invested in capital assets, net of related debt	4,913
Restricted	2,068
Unrestricted	<u>(325)</u>
Total net assets	<u>\$ 6,656</u>

Net assets of Adair County's governmental activities increased by \$1.6 million, or 32%. The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, is at a deficit of \$325,000. The deficit unrestricted net assets results primarily from the County's liability for urban renewal revenue notes issued for urban renewal projects. The County does not own and, accordingly, has not recorded the assets for which this debt was issued.

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

Revenues:

Program revenues:

Charges for service	\$	331
Operating grants, contributions and restricted interest		2,947
Capital grants, contributions and restricted interest		1,460

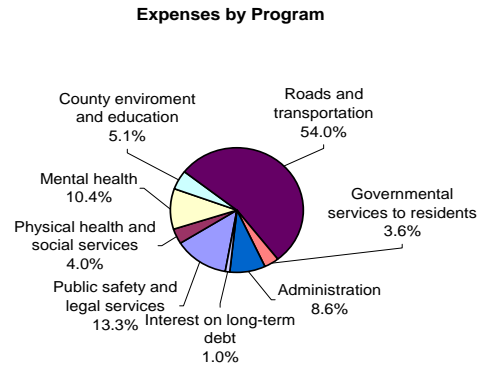
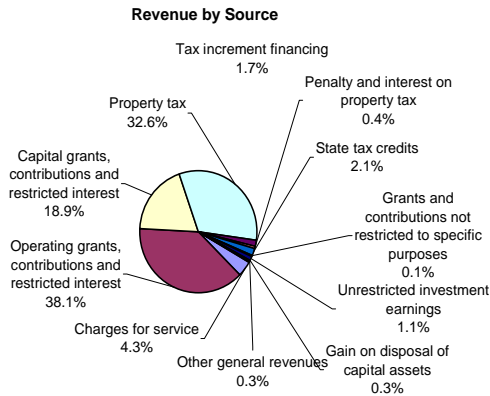
General revenues:

Property tax	2,522
Tax increment financing	131
Penalty and interest on property tax	30
State tax credits	166
Grants and contributions not restricted to specific purposes	7
Unrestricted investment earnings	86
Gain on disposal of capital assets	27
Other general revenues	25
Total revenues	7,732

Program expenses:

Public safety and legal services	811
Physical health and social services	246
Mental health	638
County environment and education	309
Roads and transportation	3,299
Governmental services to residents	221
Administration	525
Interest on long-term debt	64
Total expenses	6,113

Increase in net assets	1,619
Net assets beginning of year	5,037
Net assets end of year	\$ 6,656



The County increased property tax rates for FY04 by an average of 5 percent. This increase raised the County's property tax revenue by approximately \$89,000 in 2004. Based on slight decreases in the total assessed valuation for FY05 and an increased levy rate, property tax revenue is budgeted to increase by an additional \$157,000.

INDIVIDUAL MAJOR FUND ANALYSIS

As Adair County completed the year, its governmental funds reported a combined fund balance of \$2.9 million, a decrease of more than \$200,000 below last year's total of \$3.1 million. The decrease in fund balance is primarily attributable to lower interest income and lower intergovernmental income. The following are reasons for the more significant changes in fund balances of the major funds from the prior year:

- General Fund revenues increased approximately \$69,000 and expenditures increased approximately \$65,000. The ending fund balance showed a modest decline of approximately \$160,000 from the prior year to approximately \$599,000. The decline resulted from the General Fund continuing to have expenses greater than revenues.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$638,000, a decrease of 10% from the prior year. The Mental Health Fund balance at year end increased by approximately \$131,000 over the prior year.
- There were no significant changes in revenues, expenditures and the fund balance of the Rural Services Fund.
- Secondary Roads Fund expenditures increased by approximately \$63,000 over the prior year, due principally to equipment purchases. This increase in expenditures contributed to a decrease in the Secondary Roads Fund ending balance of approximately \$244,000, or 15%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Adair County amended its budget three times. The first amendment was done in November 2003 and resulted in an increase in budgeted disbursements related to autopsies, sheriff's vests, rail spur debt, etc. The second amendment was done in May 2004. This amendment was needed for bridges/culverts, a secondary road shop office insert and an urban renewal debt payment. The third amendment on June 14, 2004 included revenue from insurance for a wrecked patrol car and the replacement of that car.

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

- The state cut funding to the General Fund and Rural Services Fund after the FY04 budget was certified. In action taken the 30th day of June, 2003, the Board of Supervisors appropriated only 98% of county departmental budgets that were made up of General and Rural Services Funds. This cut was also passed on to outside agencies such as libraries, youth shelters, the landfill, etc. County paid health insurance premiums increased an average of 7%. Premiums paid for workman's compensation and other county insurance also increased approximately 13%.
- One full time position in the Treasurer's office was cut to a half-time position. An energy policy for the courthouse was established using information received from Alliant Energy.
- The road superintendent's position was eliminated in the Secondary Road Department.
- Elected officials received six percent salary increases, which was also passed down to deputies and clerks not covered by union contracts. In FY03, non-union positions did not receive a pay increase.
- The mileage reimbursement was reduced to 30 cents per mile from 34.5 cents per mile on September 17, 2003, and reduced again on January 2, 2004 to 25 cents per mile.
- A travel policy limiting reimbursements for travel by county employees was implemented on February 1, 2004, limiting meal reimbursements to \$20 per day and hotel rooms to \$50 per day.
- Property tax valuations increased \$2,070,999 in rural areas and \$2,683,137 in urban areas for FY04.
- Interest income decreased \$37,450, or 25%, due to lower interest rates and lower fund balances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Adair County had approximately \$7.7 million 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)	
Land	\$ 306
Land, road network	34
Construction in progress	988
Buildings and improvements	623
Improvements other than buildings	136
Equipment and vehicles	5,082
Infrastructure, road network	513
Total	<u>\$ 7,682</u>

The County had depreciation expense of \$312,000 in FY04 and total accumulated depreciation of \$2.8 million at June 30, 2004. The County's fiscal year 2004 capital budget included \$109,285 for capital projects, principally for roadway construction. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

Adair County had \$1,094,127 in capital loan notes outstanding at June 30, 2004. This represents a decrease of 9% from the prior year.

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 \$22 million. Other obligations include accrued vacation pay and sick leave. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Adair County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and the fees that will be charged for various County activities. One of those factors is the economy. Unemployment in the County now stands at 2.9 percent versus 3 percent a year ago. This compares with the State's unemployment rate of 4.8 percent and the national rate of 5.1 percent.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$6.5 million, an increase of 4 percent over the final 2004 budget. Property tax revenue benefits from a 2005 rate increase, but a decrease in assessed valuations. Adair County will use these increases in receipts to finance programs currently offered and to offset the effect we expect inflation to have on program costs. Budgeted disbursements are expected to rise by approximately \$62,000. Increased wage and cost-of-living adjustments represent the largest increases. The County has added no major new programs or initiatives to the 2005 budget. The increase in property tax revenue is needed to keep acceptable fund balances.

Effective July 1, 2005, Adair County will purchase a higher deductible health insurance plan for county employees. The County plans to use reserves in the Employee Health Insurance Fund to fund the difference in the deductibles for employee health insurance.

If these estimates are realized, the County's budgetary operating balance is expected to modestly decrease by the close of 2005.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Adair County

Basic Financial Statements

Exhibit A

Adair County
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 2,849,799
Receivables:	
Property tax:	
Delinquent	21,673
Succeeding year	2,767,000
Tax increment financing:	
Succeeding year	189,000
Accounts	14,305
Accrued interest	6,084
Due from other governments	242,811
Inventories	156,485
Prepaid items	172,206
Capital assets (net of accumulated depreciation)	<u>4,912,827</u>
Total assets	<u>11,332,190</u>
Liabilities	
Accounts payable	323,707
Accrued interest payable	5,125
Salaries and benefits payable	81,691
Due to other governments	80,020
Deferred revenue:	
Succeeding year property tax	2,767,000
Succeeding year tax increment financing	189,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital loan notes	138,000
Compensated absences	89,368
Portion due or payable after one year:	
Capital loan notes	956,127
Compensated absences	<u>46,311</u>
Total liabilities	<u>4,676,349</u>
Net Assets	
Invested in capital assets, net of related debt	4,912,827
Restricted for:	
Supplemental levy purposes	96,746
Mental health purposes	253,274
Secondary roads purposes	1,334,270
Other purposes	383,242
Unrestricted	<u>(324,518)</u>
Total net assets	<u>\$ 6,655,841</u>

See notes to financial statements.

Adair County
Statement of Activities
Year ended June 30, 2004

	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	\$ 810,917	30,063	9,831	-	(771,023)
Physical health and social services	246,061	8,718	68,334	-	(169,009)
Mental health	638,398	419	459,810	-	(178,169)
County environment and education	309,174	22,744	17,952	16,732	(251,746)
Roads and transportation	3,298,789	33,415	2,352,800	1,443,252	530,678
Governmental services to residents	221,135	219,214	154	-	(1,767)
Administration	524,738	16,744	-	-	(507,994)
Non-program	339	-	-	-	(339)
Interest on long-term debt	63,640	-	38,280	-	(25,360)
Total	\$ 6,113,191	331,317	2,947,161	1,459,984	(1,374,729)
General Revenues:					
Property and other county tax levied for:					
General purposes					2,521,782
Tax increment financing					131,004
Penalty and interest on property tax					30,289
State tax credits					165,672
Grants and contributions not restricted to specific purpose					7,336
Unrestricted investment earnings					85,736
Gain on disposal of capital assets					27,471
Miscellaneous					24,416
Total general revenues					2,993,706
Change in net assets					1,618,977
Net assets beginning of year, as restated					5,036,864
Net assets end of year					\$ 6,655,841

See notes to financial statements.

Adair County
Balance Sheet
Governmental Funds

June 30, 2004

Assets	Special Revenue		
	General	Mental Health	Rural Services
Cash and pooled investments	\$ 512,881	333,478	95,558
Receivables:			
Property tax:			
Delinquent	12,053	2,256	7,364
Succeeding year	1,567,000	293,000	907,000
Tax increment financing:			
Succeeding year	-	-	-
Accounts	13,559	-	-
Accrued interest	5,345	-	-
Due from other funds	-	-	-
Due from other governments	26,979	-	-
Inventories	-	-	-
Prepaid items	92,945	-	715
Total assets	\$ 2,230,762	628,734	1,010,637
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 19,597	11,849	409
Salaries and benefits payable	24,304	-	3,575
Due to other funds	701	-	-
Due to other governments	7,995	70,611	-
Deferred revenue:			
Succeeding year property tax	1,567,000	293,000	907,000
Succeeding year tax increment financing	-	-	-
Other	12,053	2,256	7,364
Total liabilities	1,631,650	377,716	918,348
Fund balances:			
Reserved for:			
Supplemental levy purposes	99,617	-	-
Debt service	-	-	-
Unreserved, designated for:			
Ambulance and equipment replacement	50,000	-	-
Courthouse repairs and other capital projects	10,000	-	-
Three-Mile structure repairs	-	-	10,000
Office remodeling/construction	-	-	-
Unreserved, undesignated, reported in:			
General fund	439,495	-	-
Special revenue funds	-	251,018	82,289
Capital projects fund	-	-	-
Total fund balances	599,112	251,018	92,289
Total liabilities and fund balances	\$ 2,230,762	628,734	1,010,637

See notes to financial statements.

Secondary Roads	Nonmajor	Total
1,337,251	535,323	2,814,491
-	-	21,673
-	-	2,767,000
-	189,000	189,000
746	-	14,305
-	739	6,084
701	-	701
201,511	14,321	242,811
156,485	-	156,485
78,546	-	172,206
<u>1,775,240</u>	<u>739,383</u>	<u>6,384,756</u>
291,852	-	323,707
53,812	-	81,691
-	-	701
1,414	-	80,020
-	-	2,767,000
-	189,000	189,000
17,013	-	38,686
<u>364,091</u>	<u>189,000</u>	<u>3,480,805</u>
-	-	99,617
-	127,515	127,515
-	-	50,000
-	-	10,000
-	-	10,000
20,000	-	20,000
-	-	439,495
1,391,149	419,467	2,143,923
-	3,401	3,401
<u>1,411,149</u>	<u>550,383</u>	<u>2,903,951</u>
<u>1,775,240</u>	<u>739,383</u>	<u>6,384,756</u>

Adair County

Adair County

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

June 30, 2004

Total governmental fund balances (page 19) \$ 2,903,951

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$7,682,139 and the accumulated depreciation is \$2,769,312. 4,912,827

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 38,686

The Internal Service Fund is used by management to charge the costs of the partially self funded County 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. 35,308

Long-term liabilities, including capital loan notes payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (1,234,931)

Net assets of governmental activities (page 17) \$ 6,655,841

See notes to financial statements.

Adair County

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

Year ended June 30, 2004

	General	Special Revenue	
		Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 1,332,113	289,481	908,020
Tax increment financing	-	-	-
Interest and penalty on property tax	30,289	-	-
Intergovernmental	229,540	479,382	56,516
Licenses and permits	8,605	-	-
Charges for service	185,340	-	-
Use of money and property	99,240	-	189
Miscellaneous	13,738	220	-
Total revenues	<u>1,898,865</u>	<u>769,083</u>	<u>964,725</u>
Expenditures:			
Operating:			
Public safety and legal services	818,893	-	-
Physical health and social services	246,061	-	-
Mental health	-	638,398	-
County environment and education	215,142	-	88,872
Roads and transportation	-	-	112,294
Governmental services to residents	218,348	-	2,210
Administration	517,903	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	<u>2,016,347</u>	<u>638,398</u>	<u>203,376</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(117,482)</u>	<u>130,685</u>	<u>761,349</u>
Other financing sources (uses):			
Sale of capital assets	6,100	-	-
Operating transfers in	-	-	3,909
Operating transfers out	(48,909)	-	(782,457)
Total other financing sources (uses)	<u>(42,809)</u>	<u>-</u>	<u>(778,548)</u>
Net change in fund balances	(160,291)	130,685	(17,199)
Fund balances beginning of year, as restated (note 11)	<u>759,403</u>	<u>120,333</u>	<u>109,488</u>
Fund balances end of year	<u>\$ 599,112</u>	<u>251,018</u>	<u>92,289</u>

See notes to financial statements.

Secondary Roads	Nonmajor	Total
-	-	2,529,614
-	131,004	131,004
-	-	30,289
2,353,875	45,962	3,165,275
425	-	9,030
81	39,226	224,647
120	11,492	111,041
23,290	13,820	51,068
<u>2,377,791</u>	<u>241,504</u>	<u>6,251,968</u>
-	692	819,585
-	-	246,061
-	-	638,398
-	-	304,014
3,358,900	-	3,471,194
-	-	220,558
-	-	517,903
-	187,774	187,774
106,048	3,237	109,285
<u>3,464,948</u>	<u>191,703</u>	<u>6,514,772</u>
<u>(1,087,157)</u>	<u>49,801</u>	<u>(262,804)</u>
15,450	-	21,550
827,457	-	831,366
-	-	(831,366)
<u>842,907</u>	<u>-</u>	<u>21,550</u>
(244,250)	49,801	(241,254)
<u>1,655,399</u>	<u>500,582</u>	<u>3,145,205</u>
<u>1,411,149</u>	<u>550,383</u>	<u>2,903,951</u>

Adair County

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

Year ended June 30, 2004

Net change in fund balances - Total governmental funds (page 23) \$ (241,254)

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	\$ 588,624	
Capital assets contributed by the Iowa Department of Transportation	1,443,252	
Depreciation expense	(312,441)	1,719,435

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

5,921

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

Property tax	(7,832)	
Other	17,013	9,181

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

102,873

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	1,603	
Interest on long-term debt	21,261	22,864

The Internal Service Fund is used by management to charge the costs of the partially self funded County health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

(43)

Change in net assets of governmental activities (page 17)

\$ 1,618,977

See notes to financial statements.

Adair County
 Statement of Net Assets
 Proprietary Fund
 June 30, 2004

	Internal Service - Employee Health Insurance
Assets	
Cash and cash equivalents	\$ 35,308
Liabilities	
None	-
Net Assets	
Unrestricted	\$ 35,308

See notes to financial statements.

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

Year ended June 30, 2004

		<u>Internal Service - Employee Health Insurance</u>
Operating revenues:		
None		\$ -
Operating expenses:		
Medical claims	\$ 17	
Administrative fees	<u>322</u>	<u>339</u>
Operating loss		(339)
Non-operating revenues:		
Interest income		<u>296</u>
Net loss		(43)
Net assets beginning of year		<u>35,351</u>
Net assets end of year		<u><u>\$ 35,308</u></u>

See notes to financial statements.

Adair County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2004

	Internal Service - Employee Health Insurance
Cash flows used for operating activities:	
Cash paid to suppliers for services	\$ (3,481)
Cash flows from investing activities:	
Interest on investments	296
Net decrease in cash and cash equivalents	(3,185)
Cash and cash equivalents beginning of year	38,493
Cash and cash equivalents end of year	\$ 35,308
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (339)
Adjustment to reconcile operating loss to net cash used for operating activities:	
Decrease in accounts payable	(3,142)
Net cash used for operating activities	\$ (3,481)

See notes to financial statements.

Adair County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

Assets

Cash and pooled investments:	
County Treasurer	\$ 347,222
Other County officials	5,096
Receivables:	
Property tax:	
Delinquent	54,110
Succeeding year	7,190,000
Accounts	6
Special assessments	19,371
Total assets	<u>7,615,805</u>

Liabilities

Accounts payable	606
Salaries and benefits payable	1,062
Due to other governments	7,602,739
Trusts payable	11,398
Total liabilities	<u>7,615,805</u>

Net assets \$ -

See notes to financial statements.

Adair County

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

Unrestricted net assets consist of net assets not meeting the definition of the 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 and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

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, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated 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 unspent grant proceeds as well as property tax receivable not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivables that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Accumulated sick leave is generally paid at 25%, 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 that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted by function and departmental disbursements did not exceed the amounts appropriated.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,018 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue: Secondary Roads	General	\$ 701

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

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	General	\$ 45,000
	Special Revenue: Rural Services	782,457
Rural Services	General	3,909
Total		\$ 831,366

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, 2004 was as follows:

	Balance			Balance
	Beginning of			End
	Year (as restated,	Increases	Decreases	of Year
	note 11)			
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 306,067	-	-	306,067
Land, road network	-	34,220	-	34,220
Construction in progress	-	1,501,381	(513,198)	988,183
Total capital assets not being depreciated	<u>306,067</u>	<u>1,535,601</u>	<u>(513,198)</u>	<u>1,328,470</u>
Capital assets being depreciated:				
Buildings	607,689	15,201	-	622,890
Improvements other than buildings	135,573	-	-	135,573
Equipment and vehicles	4,947,801	546,724	(412,517)	5,082,008
Infrastructure, road network	-	513,198	-	513,198
Total capital assets being depreciated	<u>5,691,063</u>	<u>1,075,123</u>	<u>(412,517)</u>	<u>6,353,669</u>
Less accumulated depreciation for:				
Buildings	95,404	13,983	-	109,387
Improvements other than buildings	61,861	4,302	-	66,163
Equipment and vehicles	2,652,394	287,276	(352,788)	2,586,882
Infrastructure, road network	-	6,880	-	6,880
Total accumulated depreciation	<u>2,809,659</u>	<u>312,441</u>	<u>(352,788)</u>	<u>2,769,312</u>
Total capital assets being depreciated, net	<u>2,881,404</u>	<u>762,682</u>	<u>(59,729)</u>	<u>3,584,357</u>
Governmental activities capital assets, net	<u>3,187,471</u>	<u>2,298,283</u>	<u>(572,927)</u>	<u>4,912,827</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 31,794
County environment and education	17,707
Roads and transportation	255,639
Administration	<u>7,301</u>
Total depreciation expense - governmental activities	<u>\$ 312,441</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	\$ 7,995
Special Revenue:		
Mental Health	Services	70,611
Secondary Roads	Services	1,414
		<u>72,025</u>
Total for governmental funds		<u>\$ 80,020</u>
Agency:		
County Assessor	Collections	\$ 184,028
Schools		4,729,319
Community Colleges		212,402
Corporations		1,191,828
County Hospital		813,960
Auto License and Use Tax		137,385
All other		333,817
Total for agency funds		<u>\$ 7,602,739</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Capital Loan Notes Payable	Compensated Absences	Total
Balance beginning of year, as restated	\$ 1,197,000	137,282	1,334,282
Increases	-	166,854	166,854
Decreases	102,873	168,457	271,330
Balance end of year	<u>\$ 1,094,127</u>	<u>135,679</u>	<u>1,229,806</u>
Due within one year	<u>\$ 138,000</u>	<u>89,368</u>	<u>227,368</u>

The July 1, 2003 long-term liabilities balance for governmental activities has been restated as follows:

Balance June 30, 2003, as previously reported	\$1,303,493
Compensated absences were increased due to the implementation of Governmental Accounting Standards Board Interpretation No. 6, <u>Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements</u> .	32,373
Compensated absences for the County Assessor Fund incorrectly reported in long-term liabilities at June 30, 2003.	<u>(1,584)</u>
Balance July 1, 2003, as restated	<u>\$1,334,282</u>

Capital Loan Notes Payable

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

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

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

A formal repayment schedule has not been established for the subordinate note. Interest is due and payable from allocable subordinate tax increment financing (TIF) revenues annually until the note matures on June 1, 2013. Allocable revenues are those TIF revenues remaining annually after principal and interest payments and required sinking and reserve transfers on the November 1998 and May 2001 notes are satisfied. During the year ended June 30, 2004, interest of \$30,459 was paid on the note as required and the County retired \$6,873 of the subordinate note. The balance remaining on the note at June 30, 2004 was \$243,127.

Details of the County's June 30, 2004 capital loan note indebtedness for which formal repayment schedules have been established are as follows:

Year Ending June 30,	Urban Renewal Revenue Notes November 25, 1998			Urban Renewal Revenue Notes May 1, 2001			Total		
	Interest			Interest			Principal	Interest	Total
	Rate	Principal	Interest	Rate	Principal	Interest			
2005	5.25%	\$ 48,000	14,228	6.00%	\$ 50,000	34,800	\$ 98,000	49,028	147,028
2006	5.25	51,000	11,708	6.00	50,000	31,800	101,000	43,508	144,508
2007	5.25	31,000	9,030	6.00	55,000	28,800	86,000	37,830	123,830
2008	5.25	33,000	3,701	6.00	60,000	25,500	93,000	29,201	122,201
2009	5.25	34,000	5,670	6.00	60,000	21,900	94,000	27,570	121,570
2010-2013	5.25	74,000	5,880	6.00	305,000	48,300	379,000	54,180	433,180
Total		<u>\$ 271,000</u>	<u>50,217</u>		<u>\$ 580,000</u>	<u>191,100</u>	<u>\$ 851,000</u>	<u>241,317</u>	<u>1,092,317</u>

During the year ended June 30, 2004, the County retired \$46,000 of urban renewal notes dated November 25, 1998 and \$50,000 of urban renewal notes dated May 1, 2001.

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

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

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

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$117,213, \$107,320 and \$111,742, respectively, equal to the required contributions for each year.

(9) Risk Management

Adair County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were \$132,416.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks are also 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, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

The County also carries commercial insurance purchased from other insurers for coverage associated with employee blanket bonds, boiler and machinery and workers' compensation. The County assumes liability for any deductibles and claims in excess of coverage limitations. The County assumes responsibility for workers compensation and employee blanket bond claims in excess of \$1,000,000 and \$20,000, respectively. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Employee Health Insurance Plan

The Internal Service, Employee Health Insurance Fund was established to account for the partial self funding of the County’s health insurance benefit plan. The plan is funded by both employee and County contributions and is administered through a service agreement with Wellmark, Inc. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual deduction limitations of \$500 and \$1,000 for single and family coverage, respectively.

Monthly payments of service fees and plan contributions to the Employee Health Insurance Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark, Inc. from the Employee Health Insurance Fund. The County did not contribute to the fund during year ended June 30, 2004.

There are no amounts payable from the Employee Health Insurance Fund at June 30, 2004. The County was not required to obtain an actuarial report for the period ended June 30, 2004 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 at July 1, 2003	\$ 3,142
Incurred claims (including claims incurred but not reported at June 30, 2004)	(3,125)
Payment on claims during the fiscal year	<u>(17)</u>
Unpaid claims at June 30, 2004	<u><u>\$ -</u></u>

(11) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the County's governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change in the governmental activities are summarized as follows:

	<u>Amount</u>
Net assets June 30, 2003, as previously reported	\$ 3,112,832
GASB Interpretation 6 adjustments	<u>32,373</u>
Net assets July 1, 2003, as restated for governmental funds	3,145,205
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$2,809,659	3,187,471
Internal Service Fund	35,351
Accrual interest payable	(26,386)
Long-term liabilities	(1,334,282)
Deferral of long-term assets	<u>29,505</u>
Net assets July 1, 2003, as restated	<u>\$ 5,036,864</u>

The Agency Fund balance was decreased by \$85,693 at July 1, 2003 to correct an overstatement of special assessments receivable at June 30, 2003.

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, 2004

	Actual	Budgeted Amounts	
		Original	Final
Receipts:			
Property and other county tax	\$ 2,660,734	2,664,959	2,666,659
Interest and penalty on property tax	30,289	30,000	30,000
Intergovernmental	3,143,721	3,068,745	3,126,621
Licenses and permits	8,423	6,700	31,500
Charges for service	234,133	160,409	186,449
Use of money and property	123,122	140,260	125,856
Miscellaneous	45,152	8,470	44,349
Total receipts	<u>6,245,574</u>	<u>6,079,543</u>	<u>6,211,434</u>
Disbursements:			
Public safety and legal services	832,626	808,745	846,996
Physical health and social services	234,163	228,176	259,471
Mental health	625,264	744,772	744,772
County environment and education	309,629	310,495	317,995
Roads and transportation	3,222,366	3,300,412	3,350,412
Governmental services to residents	219,923	237,195	237,195
Administration	514,578	545,459	545,459
Debt service	187,774	150,443	194,718
Capital projects	107,985	143,000	143,000
Total disbursements	<u>6,254,308</u>	<u>6,468,697</u>	<u>6,640,018</u>
Deficiency of receipts under disbursements	(8,734)	(389,154)	(428,584)
Other financing sources, net	21,550	7,000	28,619
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	12,816	(382,154)	(399,965)
Balance beginning of year	2,801,675	2,421,355	2,800,666
Balance end of year	<u>\$ 2,814,491</u>	<u>2,039,201</u>	<u>2,400,701</u>

See accompanying independent auditor's report.

Final to
Actual
Variance

(5,925)
289
17,100
(23,077)
47,684
(2,734)
803
34,140

14,370
25,308
119,508
8,366
128,046
17,272
30,881
6,944
35,015
385,710

419,850
(7,069)

412,781
1,009
413,790

Adair County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 6,245,574	6,394	6,251,968
Expenditures	6,254,308	260,464	6,514,772
Net	(8,734)	(254,070)	(262,804)
Other financing sources, net	21,550	-	21,550
Beginning fund balances	2,801,675	343,530	3,145,205
Ending fund balances	\$ 2,814,491	89,460	2,903,951

See accompanying independent auditor's report.

Adair County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds and Capital Projects 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, three budget amendments increased budgeted disbursements by \$171,321. 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, 2004, disbursements did not exceed the amounts budgeted by function and departmental disbursements did not exceed the amounts appropriated.

Adair County

Other Supplementary Information

Adair County
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

	Resource Enhance- ment and Protection	County Recorder's Records Management
Assets		
Cash and pooled investments	\$ 96,213	9,143
Receivables:		
Tax increment financing:		
Succeeding year	-	-
Accrued interest	162	-
Due from other governments	125	-
	Total assets	9,143
	\$ 96,500	9,143
Liabilities and Fund Equity		
Liabilities:		
Deferred revenue:		
Succeeding year tax increment financing	\$ -	-
Fund equity:		
Fund balances:		
Reserved for debt service	-	-
Unreserved, undesignated	96,500	9,143
Total fund equity	96,500	9,143
	Total liabilities and fund equity	9,143
	\$ 96,500	9,143

See accompanying independent auditor's report.

Special Revenue						
County Recorder's Electronic Transaction Fee	Special Law Enforcement	Urban Renewal	Conservation Land Acquisition Trust	Capital Projects		Total
22,779	3,957	167,141	232,689	3,401		535,323
-	-	189,000	-	-		189,000
-	-	-	577	-		739
14,196	-	-	-	-		14,321
36,975	3,957	356,141	233,266	3,401		739,383
-	-	189,000	-	-		189,000
-	-	127,515	-	-		127,515
36,975	3,957	39,626	233,266	3,401		422,868
3,957	3,957	167,141	233,266	3,401		550,383
3,957	3,957	356,141	233,266	3,401		739,383

Adair County

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

Year ended June 30, 2004

	Resource Enhance- ment and Protection	County Recorder's Records Management
Revenues:		
Tax increment financing	\$ -	-
Intergovernmental	8,675	-
Charges for service	-	2,246
Use of money and property	1,777	64
Miscellaneous	-	-
Total revenues	<u>10,452</u>	<u>2,310</u>
Expenditures:		
Operating:		
Public safety and legal services	-	-
Debt service	-	-
Capital projects	3,237	-
Total expenditures	<u>3,237</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	7,215	2,310
Fund balances beginning of year	<u>89,285</u>	<u>6,833</u>
Fund balances end of year	<u>\$ 96,500</u>	<u>9,143</u>

See accompanying independent auditor's report.

Special Revenue						
County				Conservation		
Recorder's	Special		Urban	Land	Capital	
Electronic	Law		Renewal	Acquisition	Projects	Total
Transaction Fee	Enforcement			Trust		
-	-	131,004		-	-	131,004
-	152	37,135		-	-	45,962
36,885	-	-		95	-	39,226
90	31	1,780		7,750	-	11,492
-	761	-		13,059	-	13,820
36,975	944	169,919		20,904	-	241,504
-	692	-		-	-	692
-	-	187,774		-	-	187,774
-	-	-		-	-	3,237
-	692	187,774		-	-	191,703
36,975	252	(17,855)		20,904	-	49,801
-	3,705	184,996		212,362	3,401	500,582
36,975	3,957	167,141		233,266	3,401	550,383

Adair County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,578	39,223	83,274
Other county officials	5,096	-	-	-
Receivables:				
Property tax:				
Delinquent	-	707	1,112	35,045
Succeeding year	-	92,000	145,000	4,611,000
Accounts	-	-	6	-
Special assessments	-	-	-	-
Total assets	\$ 5,096	94,285	185,341	4,729,319
Liabilities				
Accounts payable	\$ -	-	251	-
Salaries and benefits payable	-	-	1,062	-
Due to other governments	5,096	94,285	184,028	4,729,319
Trusts payable	-	-	-	-
Total liabilities	\$ 5,096	94,285	185,341	4,729,319

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	County Hospital	Auto License and Use Tax	Other	Total
3,811	34,838	3,020	13,855	137,385	30,238	347,222
-	-	-	-	-	-	5,096
1,591	7,990	1,550	6,105	-	10	54,110
207,000	1,149,000	191,000	794,000	-	1,000	7,190,000
-	-	-	-	-	-	6
-	-	-	-	-	19,371	19,371
212,402	1,191,828	195,570	813,960	137,385	50,619	7,615,805
-	-	-	-	-	355	606
-	-	-	-	-	-	1,062
212,402	1,191,828	195,570	813,960	137,385	38,866	7,602,739
-	-	-	-	-	11,398	11,398
212,402	1,191,828	195,570	813,960	137,385	50,619	7,615,805

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

Year ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year, as restated (note 11)	\$ 24,309	87,456	179,574	4,635,780
Additions:				
Property and other county tax	-	92,756	145,640	4,628,514
State tax credits	-	5,754	9,711	303,974
Office fees and collections	165,577	-	-	-
Electronic transaction fee	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	103,964	-	-	-
Miscellaneous	-	-	1,025	-
Total additions	269,541	98,510	156,376	4,932,488
Deductions:				
Agency remittances:				
To other funds	118,662	-	-	-
To other governments	66,128	91,681	150,609	4,838,949
Trusts paid out	103,964	-	-	-
Total deductions	288,754	91,681	150,609	4,838,949
Balances end of year	\$ 5,096	94,285	185,341	4,729,319

See accompanying independent auditor's report.

Community Colleges	Corpora- tions	Townships	County Hospital	Auto License and Use Tax	Other	Total
213,094	1,472,936	182,352	773,674	176,953	53,048	7,799,176
207,889	1,100,748	191,492	795,400	-	1,327	7,163,766
13,973	94,896	12,044	50,522	-	89	490,963
-	-	-	-	-	-	165,577
-	-	-	-	-	11,231	11,231
-	-	-	-	1,868,827	-	1,868,827
-	-	-	-	-	5,223	5,223
-	-	-	-	-	100,124	204,088
-	-	-	-	-	21,258	22,283
221,862	1,195,644	203,536	845,922	1,868,827	139,252	9,931,958
-	-	-	-	71,017	-	189,679
222,554	1,476,752	190,318	805,636	1,837,378	137,762	9,817,767
-	-	-	-	-	3,919	107,883
222,554	1,476,752	190,318	805,636	1,908,395	141,681	10,115,329
212,402	1,191,828	195,570	813,960	137,385	50,619	7,615,805

Schedule 5

Adair County

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

For the Last Five Years

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Officials of Adair County:

We have audited the financial statements of Adair County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 30, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 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. Prior year statutory comments have been resolved except for item (5).

Internal Control Over Financial Reporting

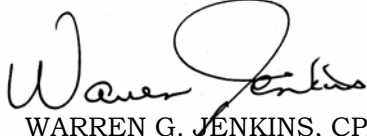
In planning and performing our audit, we considered Adair County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.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

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

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

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


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 30, 2004

Adair County

Schedule of Findings

Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS:

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

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

Response – There is a limited segregation of duties within the Treasurer's Office. However, since we cannot achieve full segregation of duties, we instead rely on a rotation of many tasks and duties to obtain a higher degree of internal control. I will review all standard operating procedures for internal control improvement.

Regarding bank statement reconciliation, in the past I have performed informal reviews of reconciliations and personally performed the reconciliations for the semi-annual reports. I will establish a more formal process by which I review and sign off on all bank reconciliations. Reconciliations will be performed within seven working days of receiving the bank statements.

Conclusion – Response accepted.

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

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

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

Response – We will try to comply in the future and will take written policies to the Board for review.

Conclusion – Response accepted.

Adair County

Schedule of Findings

Year ended June 30, 2004

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

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

Response – I will review with staff the procedures for voided receipts. I will ask all county departments to provide either the original or a photocopy of any supporting documents along with their miscellaneous receipting forms.

Conclusion – Response accepted.

- (D) County Assessor – The County Assessor does not prepare and file timesheets.

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

Response – I will prepare timesheets on myself and will make them available in my office.

Conclusion – Response accepted.

Adair County

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed amounts budgeted.
- (3) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (5) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Roger Frese, husband of General Relief Director, co-owner of Bridgewater Oil	Diesel fuel, supplies and repairs	\$ 19,827
Gary Finck, Dispatcher	Snow removal	280
Lois Hoadley, Part-time employee at the Sheriff’s Office and Sister-in-law of Board of Supervisor Chair	Meal delivery to County Jail	5,280
John Gruss, Conservation Board Member, owner of Schultz Plumbing and Heating	Installation of water and sewer lines for Orient dump station	1,500

In accordance with Chapter 331.342(4) of the Code of Iowa, the transactions with Bridgewater Oil do not appear to represent a conflict of interest since the General Relief Director’s remuneration of employment is not directly affected as a result of the contract and her duties of employment did not directly involve procurement or preparation of any part of the contract.

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions with Gary Finck and John Gruss do not appear to represent a conflict of interest since total transactions did not exceed \$1,500 during the fiscal year.

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

Recommendation – The County should comply with Chapter 331.342(4) of the Code of Iowa.

Response – We will consult the County Attorney.

Conclusion – Response accepted.

Adair County

Schedule of Findings

Year ended June 30, 2004

- (6) Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County’s investment policy were noted.
- (9) Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the County to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The County Sheriff retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The County Sheriff should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will contact the bank and request they provide copies of front and back of cancelled checks.

Conclusion – Response accepted.

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

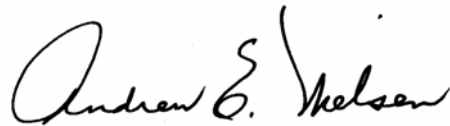
Disbursements during the year ended June 30, 2004 for the County Extension office did exceed the amount budgeted.

Adair County

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Tammy L. Mason, CPA, Senior Auditor
M. Crystal Berg, CPA, Staff Auditor
Brandon J. Yuska, 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