

CITY OF ADAIR

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

JUNE 30, 2004

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City of Adair

Officials

<u>Name</u>	<u>Title</u> (Before January 2004)	<u>Term Expires</u>
Dave Sanders	Mayor	January 2004
Lisa Plowman	Council Member	January 2004
Jim Zimmerline	Council Member	January 2004
Danny Clausen	Council Member	January 2006
Tim James	Council Member	January 2006
Larry Ludwig	Council Member	January 2006

<u>Name</u>	<u>Title</u> (After January 2004)	<u>Term Expires</u>
Dave Sanders	Mayor	January 2006
Danny Clausen	Council Member	January 2006
Tim James	Council Member	January 2006
Larry Ludwig	Council Member	January 2006
Craig Wedenmeyer	Council Member	January 2008
Jim Zimmerline	Council Member	January 2008

Linda Nichols	City Clerk	Indefinite
Beverly Wild	Attorney	Indefinite

City of Adair

November 4, 2004

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adair, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Adair'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.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

In our opinion, except for the efforts of such adjustments, if any, as might have been determined necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adair as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued...

Independent Auditor's Report
City of Adair

As described in Note 15, during the year ended June 30, 2004, the City 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*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 4, 2004 on our consideration of the City of Adair's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be 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 12 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, 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 the City of Adair's basic financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

MANAGEMENT ' S DISCUSSION AND ANALYSIS

The City of Adair provides this Management ' s Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities are for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City ' s financial statements, which follow.

Because the City 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, comparison will be more meaningful and will go further in explaining the City ' s financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

Receipts of the City ' s governmental activities were \$774,132 in fiscal 2004, which includes, among other items, \$214,154 from property tax, \$79,063 from tax increment financing and \$246,388 in reimbursement from bridge construction.

Disbursements were \$601,286 in fiscal 2004. Public safety was \$72,269, public works were \$171,094, culture and recreation disbursements were \$59,650, economic development was \$2,250, general government disbursements were \$119,232, debt service was \$84,185 and capital projects were \$92,606. Proceeds from the motel/hotel tax continue to pay for the park improvements.

The City ' s total cash basis net assets increased 9.8% or approximately \$71,309 from June 30, 2003, to June 30, 2004. Of this amount, the assets of the governmental activities increased \$32,488 and the assets of the business type activities increased \$38,821.

USING THIS ANNUAL REPORT

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

Management ' s Discussion and Analysis introduce the basic financial statements and provide an analytical overview of the City ' s financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City ' 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 the City ' s operation in more detail than the government-wide statement by providing information about the most significant 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 City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the city as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, sanitary sewer system and garbage services. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provided a detailed, short-term view of the City's general government 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 City's programs.

The required financial statements for government funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City ' s Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the water, sewer, sewer construction and garbage funds, all considered major funds of the City.

The required financial statements for propriety funds include a statement of cash receipts, disbursements and changes in cash balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City ' s cash balance for governmental activities increased from a year ago, increasing from \$527 thousand to \$560 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	<u>Yr Ended June 30, 2004</u>
Receipts	
Program Receipts:	
Charges for service	\$ 7
Operating grants, contributions and restricted interest	152
Capital grants, contributions and restricted interest	246
General receipts:	
Property tax	335
Grants and contributions not restricted to specific purposes	16
Unrestricted investment earnings	3
Bond proceeds	82
Other general receipts	<u>15</u>
Total receipts	856
Disbursements:	
Public safety	72
Public works	171
Culture and recreation	60
Community and economic development	2
General government	119
Debt service	84
Capital Projects	<u>315</u>
Total disbursements	<u>823</u>
Increase in cash basis net assets	33
Cash basis net assets beginning of year	<u>527</u>
Cash basis net assets end of year	\$ <u>560</u>

The City ' s total receipts for governmental activities were approximately \$856,000. No new programs were added this year. An increase in receipts happened due to funds received for the bridge replacement project.

The City decreased property tax rates for 2004 (\$13.30009) 6% from those taxed in 2003 (\$14.10172), in large part due to a decrease in debt service. Property taxes for the improvements at the local elevator are dedicated toward payment of the city ' s share of the bridge construction and paving 2nd street.

The cost of all governmental activities this year was approximately \$823,000, which includes costs for bridge construction and redemption of anticipatory warrants. However as shown in the Statement of Activities and Net Assets on pages 14 and 15, the amount taxpayers ultimately financed for these activities was approximately \$419,000 because some of the cost was paid by other governments and organizations that subsidized certain programs with grants contributions and restricted interest. Approximately \$7 thousand was paid by those who directly benefited from the programs. Overall the City ' s governmental activities receipts, including intergovernmental aid and fees for services increased in 2004, principally due to reimbursements received for the bridge construction project. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$336 thousand in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	<u>Year Ended June 30, 2004</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 166
Sewer	117
Garbage	57
Capital grants, contributions and restricted interest	206
General receipts:	
Unrestricted interest on investments	3
Note proceeds	<u>1,104</u>
Total receipts	1,653
Disbursements:	
Water	148
Sewer	115
Garbage	52
Capital projects	1,020
Debt Service	<u>279</u>
Total Disbursements	<u>1,614</u>
Increase in cash balance	39
Cash basis net assets beginning of year	<u>203</u>
Cash basis net assets end of year	\$ <u>242</u>

Total business type activities receipts for the fiscal year \$1.653 million. This was due primarily to the receipt of \$1.104 million in sewer construction revenue bond proceeds. The cash balance increased because water revenues exceeded expenditures by \$18,000, sewer and garbage revenue exceeded expenditures by \$7,000 and the balance of \$14,000 was because some of the note proceeds received will not be spent until next fiscal year for the approved sewer construction project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Adair completed the year, its governmental funds report a combined fund balance of \$559,901, an increase of more than \$32,000 above last year's total of \$527,413. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

The General Fund cash balance decreased \$19,602 from the prior year to \$381,953.

The Employee Benefits Fund cash balance increased by \$11,928 to \$61,192 during the fiscal year. This increase was attributable to not all deductions for employee benefits were deducted from this account and instead were deducted from the general fund.

The Urban Renewal Tax Increment Fund increased by \$37,056 to \$103,228 during the fiscal year. Again, the increase was due to not all payments were deducted from this account and instead were deducted from the general fund.

The Capital Projects Funds cash balance increased by \$13,424 to (\$69,024) during the fiscal year. This was due to the timing of some of the expenditures and receipts for same.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$39,585 to \$187,183 due to using some of the savings that had been required previously by the former lender to be kept in escrow, and it instead paid the note down to a balance of \$180,000 at 3.5% interest instead of 6% as it had been paying.

The Sewer Fund cash balance increased by \$1,903 to \$30,720. Also, the wastewater improvements required by IDNR have been under construction this past year. The funding for this project has been received through the State Revolving Loan Fund.

The Garbage Fund cash balance increased by \$5,000. It is anticipated that tipping fees, per capita fees, etc. shall be increased at the local landfill and the money is being reserved for those increases.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. This amendment was approved May 12, 2004, to show the increased costs for the bridge and wastewater projects, fuel costs, street costs, gravel and grinding leftover concrete for future street projects. The amount of the amendment increased budgeted disbursements \$497,303. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$1,528,000 in bonds and other long-term debt compared to approximately \$899,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)			
		<u>June 30</u>	
		<u>2004</u>	<u>2003</u>
General obligation bonds	\$	138	171
Urban renewal tax increment		67	102
Financing revenue bonds			
Revenue notes		1,065	228
Anticipatory warrants		<u>258</u>	<u>398</u>
Total	\$	<u>1,528</u>	<u>899</u>

Debt increased as a result of issuing revenue bonds for the wastewater improvements. The City borrowed money from the State Revolving Fund to pay for this project. Tax increment financing is paying for the city's share of the bridge construction (the federal government paid for 80% of same) and the new paving on Second Street.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and urban renewal debt of \$205,000 is significantly below its constitutional debt limit of \$1,400,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Adair's elected and appointed official and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. Property tax (benefiting from the 2004 rate increases and increases in assessed valuations) and proceeds from the urban renewal tax increment financing revenue bonds are expected to lead this increase along with proceeds from the local option sales tax. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of asphaltting numerous streets. The City has added no major new programs or initiatives to the 2005 budget. The tax rate for the 2005 budget decreased approximately 2% from the prior year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Linda Nichols, City Clerk, Audubon Street, Adair, Iowa.

City of Adair

Basic Financial Statements

City of Adair
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2004

	Disbursements	Charges for Service	Program Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 72,269	301	24,099
Public works	171,094	0	82,677
Culture and recreation	59,650	3,096	41,414
Community and economic development	2,250	0	2,250
General government	119,232	3,710	0
Debt service	84,185	0	0
Capital projects	314,905	0	0
Total governmental activities	823,585	7,107	150,440
Business type activities:			
Water	388,450	166,189	0
Sewer	115,471	116,982	0
Sewer construction	1,058,401	0	0
Garbage	51,900	57,382	0
Total business type activities	1,614,222	340,553	0
 Total	\$ 2,437,807	347,660	150,440
General Receipts:			
Property tax levied for:			
General purposes			
Employee benefits			
Tax increment financing			
Debt service			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Note proceeds			
Miscellaneous			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Employee benefits			
Urban renewal purposes			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements

Receipts	Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
Capital Grants, Contributions and Restricted Interest			
0	(47,869)	0	(47,869)
0	(88,417)	0	(88,417)
0	(15,140)	0	(15,140)
0	0	0	0
0	(115,522)	0	(115,522)
0	(84,185)	0	(84,185)
246,388	(68,517)	0	(68,517)
<u>246,388</u>	<u>(419,650)</u>	<u>0</u>	<u>(419,650)</u>
0	0	(222,261)	(222,261)
0	0	1,511	1,511
205,769	0	(852,632)	(852,632)
0	0	5,482	5,482
<u>205,769</u>	<u>0</u>	<u>(1,067,900)</u>	<u>(1,067,900)</u>
<u>452,157</u>	<u>(419,650)</u>	<u>(1,067,900)</u>	<u>(1,487,550)</u>
	\$ 196,145	0	196,145
	44,871	0	44,871
	79,063	0	79,063
	15,755	0	15,755
	15,049	0	15,049
	2,791	3,139	5,930
	81,941	1,103,582	1,185,523
	16,523	0	16,523
	<u>452,138</u>	<u>1,106,721</u>	<u>1,558,859</u>
	32,488	38,821	71,309
	<u>527,413</u>	<u>202,706</u>	<u>730,119</u>
	<u>\$ 559,901</u>	<u>241,527</u>	<u>801,428</u>
	\$ 61,192	0	61,192
	103,228	0	103,228
	37,377	0	37,377
	45,175	0	45,175
	<u>312,929</u>	<u>241,527</u>	<u>554,456</u>
	<u>\$ 559,901</u>	<u>241,527</u>	<u>801,428</u>

City of Adair
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2004

	Special Revenue		
General	Employee Benefits	Urban Renewal Tax Increment	
Receipts:			
Property tax	\$ 151,375	43,224	0
Tax increment financing collections	0	0	79,063
Other city tax	40,217	1,647	0
Licenses and permits	3,710	0	0
Use of money and property	21,480	0	0
Intergovernmental	44,132	0	0
Charges for service	2,846	0	0
Miscellaneous	44,913	0	0
	308,673	44,871	79,063
Disbursements:			
Operating:			
Public safety	59,571	12,698	0
Public works	99,566	10,715	0
Culture and recreation	59,234	416	0
Community and economic development	0	0	0
General government	102,577	9,114	0
Debt service	7,327	0	42,007
Capital projects	0	0	0
Total disbursements	328,275	32,943	42,007
Excess (deficiency) of receipts over (under) disbursements	(19,602)	11,928	37,056
Other financing sources (uses):			
Loan proceeds	0	0	0
Anticipatory warrants redeemed	0	0	0
Total other financing sources (uses)	0	0	0
Net change in cash balances	(19,602)	11,928	37,056
Cash balances beginning of year	401,555	49,264	66,172
Cash balances end of year	\$ 381,953	61,192	103,228
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ 0	0	0
Unreserved:			
General fund	381,953	0	0
Special revenue funds	0	61,192	103,228
Capital projects fund	0	0	0
Permanent fund	0	0	0
Total cash basis fund balances	\$ 381,953	61,192	103,228

See notes to financial statements

<u>Capital Projects</u>		
Bridge Construction	Other Nonmajor Governmental Funds	Total
0	19,555	214,154
0	0	79,063
0	753	42,617
0	0	3,710
0	14	21,494
246,388	74,715	365,235
0	0	2,846
0	100	45,013
<u>246,388</u>	<u>95,137</u>	<u>774,132</u>
0	0	72,269
0	60,813	171,094
0	0	59,650
0	2,250	2,250
0	7,541	119,232
0	34,851	84,185
92,606	0	92,606
<u>92,606</u>	<u>105,455</u>	<u>601,286</u>
153,782	(10,318)	172,846
81,941	0	81,941
(222,299)	0	(222,299)
<u>(140,358)</u>	<u>0</u>	<u>(140,358)</u>
13,424	(10,318)	32,488
(82,448)	92,870	527,413
<u>(69,024)</u>	<u>82,552</u>	<u>559,901</u>
0	37,377	37,377
0	0	381,953
0	14,377	178,797
(69,024)	0	(69,024)
0	30,798	30,798
<u>(69,024)</u>	<u>82,552</u>	<u>559,901</u>

City of Adair
 Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Governmental Funds
 As of and for the year ended June 30, 2004

Total governmental funds cash balances	\$	559,901
<i>Adjustments:</i>		
None		0
Cash basis net assets of governmental activities	\$	559,901
Net change in cash balances	\$	32,488
<i>Adjustments:</i>		
None		0
Change in cash balance of governmental activities	\$	32,488

See notes to financial statements

City of Adair
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Enterprise Sewer Construction</u>
Operating receipts:			
Charges for service	\$ 166,189	116,982	0
Operating disbursements:			
Business type activities	<u>148,383</u>	<u>115,471</u>	<u>0</u>
Excess of operating receipts over operating disbursements	17,806	1,511	0
Non-operating receipts (disbursements):			
Intergovernmental	0	0	205,769
Interest on investments	2,676	392	0
Note proceeds	180,000	0	923,582
Capital projects	0	0	(1,019,401)
Debt service	<u>(240,067)</u>	<u>0</u>	<u>(39,000)</u>
Total non-operating receipts (disbursements)	<u>(57,391)</u>	<u>392</u>	<u>70,950</u>
Net change in cash balances	(39,585)	1,903	70,950
Cash balances beginning of year	<u>226,768</u>	<u>28,817</u>	<u>(95,274)</u>
Cash balances end of year	\$ <u>187,183</u>	<u>30,720</u>	<u>(24,324)</u>
 Cash Basis Fund Balances			
Unreserved	\$ <u>187,183</u>	<u>30,720</u>	<u>(24,324)</u>

See notes to financial statements

<u>Funds</u>	
<u>Garbage</u>	<u>Total</u>
57,382	340,553
<u>51,900</u>	<u>315,754</u>
5,482	24,799
0	205,769
71	3,139
0	1,103,582
0	(1,019,401)
<u>0</u>	<u>(279,067)</u>
<u>71</u>	<u>14,022</u>
5,553	38,821
<u>42,395</u>	<u>202,706</u>
<u>47,948</u>	<u>241,527</u>
<u>47,948</u>	<u>241,527</u>

City of Adair
 Reconciliation of the Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 to the Statement of Activities and Net Assets –
 Proprietary Funds
 As of and for the year ended June 30, 2004

Total enterprise funds cash balances	\$	241,527
<i>Adjustments:</i>		
None		0
Cash basis net assets of business type activities	\$	241,527
Net change in cash balances	\$	38,821
<i>Adjustments:</i>		
None		0
Change in cash balance of business type activities	\$	38,821

See notes to financial statements

City of Adair
Notes to Financial Statements
June 30, 2004

NOTE (1) Summary of Significant Accounting Policies

The City of Adair is a political subdivision of the State of Iowa located in Adair County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Adair has included all funds, organizations, agencies, boards, commissions and authorities. The City 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 City are such that exclusion would cause the City'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 City 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 City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Adair County Assessor's Conference Board and the Adair County Landfill Commission .

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

City of Adair
Notes to Financial Statements
June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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 that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts 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 disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Employee Benefit Fund is used to account for property taxes levied for employee benefits.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through the Enterprise Funds.

City of Adair
Notes to Financial Statements
June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sewer Construction Fund accounts for the construction of capital facilities to be financed through the Sewer Enterprise Fund.

The Garbage Fund accounts for the operation of the City's solid waste disposal.

C. Measurement Focus and Basis of Accounting

The City of Adair maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government, debt service and business type activities functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2002, to compute the amounts which became liens on property on July 1, 2003. These taxes were due and payable in two installments on September 30, 2003 and March 31, 2004, at the Adair and Guthrie County Treasurer's Offices. These taxes are recognized as income to the City when they are received from the county.

City of Adair
Notes to Financial Statements
June 30, 2004

NOTE (2) Cash and Pooled Investments

The City'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 City 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 City Council; 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 City's cash, which consists of cash in bank and certificates of deposits, totaled \$801,428 at June 30, 2004.

The City had one money market account that was held in a depository outside the State of Iowa.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 25,619	7,582	37,145	4,862	61,000	33,537	123,764	45,981
2006	26,303	6,186	30,467	2,012	62,000	31,507	118,770	39,705
2007	27,034	4,735	0	0	63,000	29,447	90,034	34,182
2008	27,815	3,226	0	0	64,000	27,357	91,815	30,583
2009	13,649	1,657	0	0	66,000	25,237	79,649	26,894
2010-2014	18,129	1,074	0	0	329,000	92,995	347,129	94,069
2015-2019	0	0	0	0	290,000	46,015	290,000	46,015
2020-2022	0	0	0	0	129,562	5,931	129,562	5,931
	<u>\$ 138,549</u>	<u>24,460</u>	<u>67,612</u>	<u>6,874</u>	<u>1,064,562</u>	<u>292,026</u>	<u>1,270,723</u>	<u>323,360</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

City of Adair
Notes to Financial Statements
June 30, 2004

NOTE (3) Bonds and Notes Payable - Continued

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The City has a general obligation debt limit of approximately \$1,400,000 which was not exceeded during the year ended June 30, 2004.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) Proceeds of the note shall be credited to the project fund and expended therefrom for the purpose of the issuance.
- (b) The notes will only be redeemed from the future earnings of the enterprise activity, and the note holders hold a lien on the future earnings of the fund.

The City has complied with the provisions of the resolutions.

NOTE (4) Interest Costs

The City of Adair paid the following interest costs during the year.

Interest reflected in capital projects costs	\$ 11,832
Interest reflected in debt service costs	<u>48,379</u>
	<u>\$ 60,211</u>

NOTE (5) Pension and Retirement Benefits

The City 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 City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2004 was \$9,113, equal to the required contribution for the year.

City of Adair
Notes to Financial Statements
June 30, 2004

NOTE (6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2004, primarily relating to the General Fund was \$3,660. This liability has been computed based on rates of pay in effect at June 30, 2004.

NOTE (7) Anticipatory Warrants

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

Anticipatory warrant activity for the year is as follows:

Beginning Balance	\$ 398,087
Warrants Issued	81,941
Warrants Redeemed	<u>(222,299)</u>
Ending Balance	<u>\$ 257,729</u>

NOTE (8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$7,525 during the year ended June 30, 2004.

NOTE (9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (10) Construction Contracts and Commitments

The City had the following construction contract which was not complete or paid in full as of June 30, 2004:

Project	Estimated Total Contract Price	Paid to June 30, 2004	Remaining Commitment	Retainages Payable
Sewer Construction	\$ 1,071,708	\$ 1,029,332	\$ 42,376	\$ 42,376
Bridge Construction	816,150	786,778	29,372	29,372
			<u>\$ 71,748</u>	<u>\$ 71,748</u>

City of Adair
Notes to Financial Statements
June 30, 2004

NOTE (11) Commitments

Sanitation Contract – The City has contracted for solid waste disposal and recycling through August 31, 2008, for approximately \$3,500 a month.

NOTE (12) Housing Rehabilitation

In May, 2004, the Iowa Department of Economic Development awarded the City \$338,992 in CDBG funds for housing rehabilitation. No funds were disbursed as of June 30, 2004.

NOTE (13) Deficit Fund Balance

The Capital Projects, Bridge Construction Fund had a deficit balance of \$69,024 at June 30, 2004. The Enterprise Fund, Sewer Construction Account had a deficit balance of \$24,324. The deficit balances were a result of project costs incurred prior to availability of funds. The deficits will be eliminated upon receipt of loan proceeds.

NOTE (14) Subsequent Event

On July 1, 2004, the City issued \$300,000 in general obligation notes to redeem anticipatory warrants issued for a bridge construction project.

NOTE (15) Accounting Change and Restatements

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 City’s financial activities. The financial statements now include a government-wide financial statement 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 statement reports the City’s governmental and business type activities. The accounting change has no effect on beginning net assets.

Required Supplementary Information

City of Adair
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property tax	\$ 222,263	0
Tax increment financing collections	79,063	0
Other city tax	34,508	0
Licenses and permits	3,710	0
Use of money and property	21,494	3,139
Intergovernmental	366,289	205,769
Charges for service	2,846	340,553
Miscellaneous	43,959	0
Total receipts	774,132	549,461
Disbursements		
Public safety	72,269	0
Public works	171,094	0
Culture and recreation	59,650	0
Community and economic development	2,250	0
General government	119,232	0
Debt service	84,185	0
Capital projects	92,606	0
Business type activities	0	1,614,222
Total disbursements	601,286	1,614,222
Excess (deficiency) of receipts over (under) disbursements	172,846	(1,064,761)
Other financing sources, net	(140,358)	1,103,582
Excess of receipts and other financing sources over disbursements and other financing uses	32,488	38,821
Balances beginning of year	527,413	202,706
Balances end of year	\$ 559,901	241,527

See accompanying independent auditor's report

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
222,263	234,747	261,310	(39,047)
79,063	41,610	41,610	37,453
34,508	55,213	40,059	(5,551)
3,710	600	9,575	(5,865)
24,633	0	2,000	22,633
572,058	1,067,314	1,068,314	(496,256)
343,399	327,830	334,430	8,969
43,959	7,000	74,110	(30,151)
<u>1,323,593</u>	<u>1,734,314</u>	<u>1,831,408</u>	<u>(507,815)</u>
72,269	63,759	66,259	(6,010)
171,094	143,748	168,748	(2,346)
59,650	34,800	39,800	(19,850)
2,250	500	42,110	39,860
119,232	98,600	103,200	(16,032)
84,185	41,610	60,203	(23,982)
92,606	0	400,000	307,394
<u>1,614,222</u>	<u>1,327,830</u>	<u>1,327,830</u>	<u>(286,392)</u>
<u>2,215,508</u>	<u>1,710,847</u>	<u>2,208,150</u>	<u>(7,358)</u>
(891,915)	23,467	(376,742)	(515,173)
<u>963,224</u>	<u>0</u>	<u>400,000</u>	<u>563,224</u>
71,309	23,467	23,258	48,051
<u>730,119</u>	<u>82,360</u>	<u>82,360</u>	<u>647,759</u>
<u>801,428</u>	<u>105,827</u>	<u>105,618</u>	<u>695,810</u>

See accompanying independent auditor's report.

City of Adair
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$497,303. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government, debt service, and business type activities functions.

Other Supplementary Information

City of Adair
Combining Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
General Fund
As of and for the year ended June 30, 2004

	<u>General</u>	<u>Fire</u>	<u>Library</u>
Receipts:			
Property tax	\$ 151,375	0	0
Other city tax	40,217	0	0
Licenses and permits	3,710	0	0
Use of money and property	5,693	92	6,391
Intergovernmental	14,743	22,389	5,725
Charges for services	2,648	0	188
Miscellaneous	16,824	1,618	26,248
Total receipts	<u>235,210</u>	<u>24,099</u>	<u>38,552</u>
Disbursements:			
Operating:			
Public safety	48,983	10,588	0
Public works	99,566	0	0
Culture and recreation	17,425	0	25,750
General government	102,577	0	0
Debt service	7,327	0	0
Total disbursements	<u>275,878</u>	<u>10,588</u>	<u>25,750</u>
Excess (deficiency) of receipts over (under) disbursements	(40,668)	13,511	12,802
Other financing sources (uses):			
Operating transfers (in) out	<u>(20,900)</u>	<u>6,200</u>	<u>9,600</u>
Net change in cash balances	(61,568)	19,711	22,402
Cash balances beginning of year	<u>157,697</u>	<u>4,026</u>	<u>210,695</u>
Cash balances end of year	<u>\$ 96,129</u>	<u>23,737</u>	<u>233,097</u>

See accompanying independent auditor's report

Community Building	Cemetery	Total
0	0	151,375
0	0	40,217
0	0	3,710
8,332	972	21,480
0	1,275	44,132
0	10	2,846
0	223	44,913
<u>8,332</u>	<u>2,480</u>	<u>308,673</u>
0	0	59,571
0	0	99,566
8,355	7,704	59,234
0	0	102,577
0	0	7,327
<u>8,355</u>	<u>7,704</u>	<u>328,275</u>
(23)	(5,224)	(19,602)
<u>0</u>	<u>5,100</u>	<u>0</u>
(23)	(124)	(19,602)
<u>24,914</u>	<u>4,223</u>	<u>401,555</u>
<u><u>24,891</u></u>	<u><u>4,099</u></u>	<u><u>381,953</u></u>

City of Adair
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2004

	Special Revenue		
	Road Use Tax	Emergency	Economic Development
Receipts:			
Property tax	\$ 0	4,376	0
Other city tax	0	177	0
Use of money and property	0	0	0
Intergovernmental	72,465	0	2,250
Miscellaneous	0	0	0
Total receipts	72,465	4,553	2,250
Disbursements:			
Operating:			
Public works	60,813	0	0
Community and economic development	0	0	2,250
General government	0	7,541	0
Debt service	15,958	0	0
Total disbursements	76,771	7,541	2,250
Net change in cash balances	(4,306)	(2,988)	0
Cash balances beginning of year	12,753	8,918	0
Cash balances end of year	\$ 8,447	5,930	0
 Cash Basis Fund Balances			
Reserved:			
Debt service	\$ 0	0	0
Unreserved:			
Special revenue funds	8,447	5,930	0
Permanent fund	0	0	0
Total cash basis fund balances	\$ 8,447	5,930	0

See accompanying independent auditor's report

<u>Debt Service</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
General Obligation		
15,179	0	19,555
576	0	753
0	14	14
0	0	74,715
0	100	100
<u>15,755</u>	<u>114</u>	<u>95,137</u>
0	0	60,813
0	0	2,250
0	0	7,541
18,893	0	34,851
<u>18,893</u>	<u>0</u>	<u>105,455</u>
(3,138)	114	(10,318)
<u>40,515</u>	<u>30,684</u>	<u>92,870</u>
<u>37,377</u>	<u>30,798</u>	<u>82,552</u>
37,377	0	37,377
0	0	14,377
0	30,798	30,798
<u>37,377</u>	<u>30,798</u>	<u>82,552</u>

City of Adair
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer improvement	Feb 1, 1998	4.75-4.90 %	\$ 130,000
Park restroom	Nov 1, 1999	7.90 %	50,000
Equipment	Jan 20, 2000	7.00 %	35,001
Equipment	Jan 24, 2001	5.00 %	58,250
Total			
Urban renewal tax increment financing (TIF) revenue bonds			
	Jun 1, 1995	8.75 %	\$ 200,000
	Jan 1, 2001	5.00 %	24,244
Total			
Revenue notes:			
Water	Sept 1, 1989	6.00 %	\$ 150,000
Water	Sept 1, 1989	6.00 %	114,000
Sewer	Jun 17, 2003	3.00 %	1,058,000
Water refunding	Apr 5, 2004	3.50 %	180,000
Total			
Anticipatory warrants:			
Bridge construction	Jul 1, 2002	5.00 %	\$ 400,000

See accompanying independent auditor's report

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
75,000	0	15,000	60,000	3,593	0
36,577	0	4,685	31,892	2,642	0
7,456	0	7,456	0	522	0
<u>52,236</u>	<u>0</u>	<u>5,579</u>	<u>46,657</u>	<u>2,401</u>	<u>0</u>
<u>171,269</u>	<u>0</u>	<u>32,720</u>	<u>138,549</u>	<u>9,158</u>	<u>0</u>
84,144	0	25,621	58,523	6,955	0
<u>17,740</u>	<u>0</u>	<u>8,651</u>	<u>9,089</u>	<u>780</u>	<u>0</u>
<u>101,884</u>	<u>0</u>	<u>34,272</u>	<u>67,612</u>	<u>7,735</u>	<u>0</u>
129,634	0	129,634	0	6,776	0
98,507	0	98,507	0	5,149	0
0	923,582	39,000	884,582	19,561	0
<u>0</u>	<u>180,000</u>	<u>0</u>	<u>180,000</u>	<u>0</u>	<u>0</u>
<u>228,141</u>	<u>1,103,582</u>	<u>267,141</u>	<u>1,064,582</u>	<u>31,486</u>	<u>0</u>
<u>398,087</u>	<u>81,941</u>	<u>222,299</u>	<u>257,729</u>	<u>11,832</u>	<u>0</u>

City of Adair
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	General Obligation Bonds						
	Sewer Improvement		Equipment		Equipment		Total
	Issued Feb 1, 1998		Issued Nov 8, 1999		Issued Jan 24, 2001		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	4.75 %	\$ 15,000	7.90 %	\$ 4,901	5.00 %	\$ 5,718	
2006	4.80 %	15,000	7.90 %	5,296	5.00 %	6,007	26,303
2007	4.85 %	15,000	7.90 %	5,723	5.00 %	6,311	27,034
2008	4.90 %	15,000	7.90 %	6,184	5.00 %	6,631	27,815
2009	-	0	7.90 %	6,682	5.00 %	6,967	13,649
2010	-	0	7.90 %	3,106	5.00 %	7,319	10,425
2011	-	0	-	0	5.00 %	7,704	7,704
		<u>\$ 60,000</u>		<u>\$ 31,892</u>		<u>\$ 46,657</u>	<u>\$ 138,549</u>

Revenue Notes				
Sewer		Water Refunding		Total
Issued Jan 20, 2000		Issued Jan 24, 2001		
Interest Rates	Amount	Interest Rates	Amount	
3.00 %	\$ 41,000	4.00 %	\$ 20,000	\$ 61,000
3.00 %	42,000	4.00 %	20,000	62,000
3.00 %	43,000	4.00 %	20,000	63,000
3.00 %	44,000	4.00 %	20,000	64,000
3.00 %	46,000	4.00 %	20,000	66,000
3.00 %	47,000	4.00 %	20,000	67,000
3.00 %	48,000	4.00 %	20,000	68,000
3.00 %	50,000	4.00 %	20,000	70,000
3.00 %	51,000	4.00 %	20,000	71,000
3.00 %	53,000	-	0	53,000
3.00 %	55,000	-	0	55,000
3.00 %	56,000	-	0	56,000
3.00 %	58,000	-	0	58,000
3.00 %	60,000	-	0	60,000
3.00 %	61,000	-	0	61,000
3.00 %	63,000	-	0	63,000
3.00 %	65,000	-	0	65,000
3.00 %	1,582	-	0	1,582
	<u>\$ 884,582</u>		<u>\$ 180,000</u>	<u>\$ 1,064,582</u>

See accompanying independent auditor's report

Urban Renewal Tax Increment Financing (TIF) Revenue Bonds					
Year Ending June 30,	Issued Jun 1, 1995		Issued Jan 1, 2001		Total
	Interest Rates	Amount	Interest Rates	Amount	
2005	8.75 %	\$ 28,056	5.00 %	\$ 9,089	\$ 37,145
2006	8.75 %	30,467	-	0	30,467
		\$ <u>58,523</u>		\$ <u>9,089</u>	\$ <u>67,612</u>

City of Adair
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	02-WS-106	\$ 205,769
Community Development Block Grants/State's Program	14.228	02-ED-016	2,250
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BROS-0022	246,814
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Clean Water State Revolving Fund Program	66.458	CS192232 01	<u>769,651</u>
			<u>\$ 1,224,484</u>

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

See accompanying independent auditor's report

City of Adair

November 4, 2004

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Adair, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 4, 2004. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Adair's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide 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 City of Adair's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in 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, we believe all the reportable conditions described above are also material weaknesses. The prior year reportable condition, item II-A-04, has not been resolved.

Continued...

Independent Auditor's Report on
Internal Control and Compliance

Compliance

As part of obtaining reasonable assurance about whether the City of Adair'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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City'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 City. 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 items IV-A-04, IV-B-04, and IV-E-04.

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

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

November 4, 2004

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Adair, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. City of Adair's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Adair's management. Our responsibility is to express an opinion on the City of Adair's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Adair's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Adair's compliance with those requirements.

In our opinion, the City of Adair complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Continued...

City of Adair
Independent Auditor's Report on
Compliance Applicable to Each Major Program

Internal Control Over Compliance

The management of the City of Adair is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Adair's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Adair's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Adair and other parties to whom the City of Adair may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

City of Adair
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

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

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.458 – Clean Water State Revolving Fund Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Adair did not qualify as a low-risk auditee.

City of Adair
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one employee is involved in cash receipts, cash disbursements, deposits and general ledger posting.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should consider the use of a third party bank for collection of utility receipts.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-04 Check Signatures

Comment - We noted only one signature is required on checks.

Recommendation - The City should consider requiring two signatures on all checks in order to provide an additional internal control over cash disbursements.

Response - We will do this.

Conclusion - Response accepted.

City of Adair
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements - Continued:

REPORTABLE CONDITIONS:

II-C-04 Separate Boards

Comment – The fire, cemetery, library and community building boards maintain the accounting records pertaining to the operations of the fire department, cemetery, library and community building. These transactions and the resulting balances are not recorded in the Clerk’s records as required by Code of Iowa Chapter 384.20.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that, “a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes.” An accounting system for each board which will provide the necessary and required financial information should be implemented immediately to comply with this code requirement. For better accountability, financial and budgetary control, the financial activity and balances of all city accounts should be recorded in the Clerk’s records.

Response – The City shall request from all boards that they submit monthly, and at a minimum, quarterly reports to the City so that the financial activity of each board can be recorded in the Clerk’s records.

Conclusion – Response accepted.

II-D-04 Reconciliation of Utility Billings, Collections and Delinquencies

Comment – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation –Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will implement procedures.

Conclusion – Response accepted.

Part II: Findings Related to the Financial Statements - Continued:

City of Adair
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

REPORTABLE CONDITIONS:

II-E-04 Classification of Deposits and Disbursements

Comment – We noted several misclassifications of receipts and disbursements to the general ledger accounts.

Recommendation – A Council designated, independent person, should review general ledger detail monthly to determine items are properly classified.

Response – We will implement procedures.

Conclusion – Response accepted.

City of Adair
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

CFDA Number 66.458: Clean Water State Revolving Fund Program
Pass-through Agency Number: CS 192232 01
Federal Award Year: 2004
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources

III-A-04 Segregation of Duties over Federal Receipts – The City did not properly segregate duties for receipts, deposits, disbursements and general ledger accounting, including those related to federal programs. See item II-A-04.

City of Adair
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting:

IV-A-04 Official Depositories

Comment – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation – The City should amend its authorized maximum depository to a sufficient amount.

Response – We will do this.

Conclusion – Response accepted.

IV-B-04 Certified Budget

Comment – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. In addition, the date noted on the adopted budget preceded the date of the public hearing on the budget.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Budget hearings, and notices thereof, should be made in accordance with Chapter 384.16 of the Iowa Code prior to adoption of the budget.

Response – We will do this.

Conclusion – Response accepted.

Part IV: Other Findings Related to Statutory Reporting:

City of Adair
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2004

IV-C-04 Questionable Disbursements

Comment – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Linda Nichols	Christmas party food	\$ 35

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-04 Business Transactions

Comment – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jim Zimmerline, Council Member Owner of Jim’s Lawn Care	Contract services	\$ 7,525

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member appear to represent conflicts of interest since total transactions with the individual exceeded \$2,500 during the fiscal year.

Recommendation – The City should seek legal advice on this matter.

Response – We will do this.

Conclusion – Response accepted.

Part IV: Other Findings Related to Statutory Reporting:

City of Adair
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

IV-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-04 Deposits and Investments

Comment – The Cemetery board had a money market fund that was held in a depository outside the state. However, Chapter 12C of the Code of Iowa requires that city deposits be held in depositories located in the county in which the City is located or in an adjoining county, but if there is no depository in the county in which the city is located or in an adjoining county then in any other depository located in this state which shall be selected as a depository by the city council.

Recommendation – The City should only deposit funds in allowable depositories.

Response – We will review and revise our policies and deposit only in allowable depositories.

Conclusion – Response accepted.

IV-I-04 Revenue Bonds and Notes – The City has complied with the revenue note resolutions.

IV-J-04 Investment Income

Comment – Interest on the cemetery perpetual care checking account was recorded in the cemetery perpetual care fund.

Recommendation – In accordance with Chapter 566.16 of the Code of Iowa, the interest should be recorded in the cemetery operations fund. The accumulated interest should be transferred.

Response – We will consider this.

Conclusion – Response acknowledged

Part IV: Other Findings Related to Statutory Reporting:

IV-K-04 Financial Condition

City of Adair
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Comment – The Capital Projects, Bridge Construction Fund and Enterprise Fund, Sewer Construction Account, had deficit balances at June 30, 2004.

Recommendation – The City should monitor activity in these funds in order to eliminate the deficits.

Response – We will do this.

Conclusion – Response accepted.

IV-L-04 Excess Balances

Comment – The cash balances in the Special Revenue fund, Employee Benefits and Urban Renewal Tax Increment Accounts, and the Debt Service Fund at June 30, 2004 were in excess of the disbursements made from each fund during the year.

Recommendation – The City should consider the necessity of maintaining the excess balances.

Response – We will review this further.

Conclusion – Response accepted.

IV-M-04 Public Property

Comment – The City Council has not established a policy of vehicle usage for other than City purposes. Private use of public property is prohibited by Article III Section 31 of the constitution of the State of Iowa which states in part, “...no public money or property shall be appropriated for local or private purpose.”

Recommendation – The City should establish a policy prohibiting private usage of public vehicles.

Response – We will consider adopting a policy.

Conclusion – Response acknowledged.

NEWS RELEASE

SCHROER & ASSOCIATES, P.C. today released an audit report on the City of Adair, Iowa.

The City 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 now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$2,509,116 for the year ended June 30, 2004. The receipts included \$256,771 in property tax, \$79,063 from tax increment financing collections, \$347,660 from charges for service, \$150,440 from operating grants, contributions and restricted interest, \$452,157 from capital grants, contributions and restricted interest, \$1,185,523 from note proceeds, \$5,930 from unrestricted investment earnings and \$31,572 from other general receipts.

Disbursements for the year totaled \$2,437,807, and included \$314,905 for capital projects, \$171,094 for public works, and \$119,232 for general government.

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

City of Adair
 Summary Schedule of Prior Federal Audit Findings
 Year ended June 30, 2004

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
03-III-A	Segregation of Duties over Federal Revenues	Not corrected	Plan to utilize administrative personnel to provide additional control
03-III-B	Timely Bank Account Reconciliation	Corrective action taken	

City of Adair
 Corrective Action Plan for Federal Audit Findings
 Year ended June 30, 2004

Comment Reference	Comment Title	Corrective Action Plan	Contact Person Title Phone Number	Anticipated Date of Completion
III-A-04	Segregation of Duties over Federal Revenues	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Linda Nichols, City Clerk 641-742-3751	12/31/04

January 14, 2005

To the Honorable Mayor and
Members of the City Council
of the City of Adair, Iowa:

In planning and performing our audit of the financial statements of the City of Adair for the year ended June 30, 2004, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

A separate report dated November 4, 2004, contains our report on reportable conditions in the City's internal controls. This letter does not affect our report dated November 4, 2004, on the financial statements of the City.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency.

We noted the software is date sensitive to calendar year and fiscal year. An error in input can result in inaccurate financial report information.

The City should consider additional training opportunities to insure personnel understand all the features of the software in order to expedite accurate financial information.

The City is responsible for maintaining accurate books and records to support financial information. Oversight of monthly reconciliations and general ledger activity by a designated independent person will assist in correcting errors on a timely basis.

We have discussed these comments and suggestions with certain City personnel and officials. We will be pleased to discuss them in further detail.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/jb