



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 16, 2007

Contact: Andy Nielsen
515/281-5834

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

The County had local tax revenue of \$11,677,917 for the year ended June 30, 2007, which included \$680,746 in tax credits from the state. The County forwarded \$8,714,423 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$2,963,494 of the local tax revenue to finance County operations, a 1 percent decrease from the prior year. Other revenues included charges for service of \$284,675, operating grants, contributions and restricted interest of \$2,864,709, capital grants, contributions and restricted interest of \$588,612, tax increment financing of \$228,134, local option sales tax of \$331,171, unrestricted investment earnings of \$156,968 and other general revenues of \$64,757.

Expenses for County operations totaled \$6,620,467, a 2 percent decrease from the prior year. Expenses included \$3,622,181 for roads and transportation, \$849,467 for public safety and legal services and \$832,901 for mental health.

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

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ADAIR COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2007

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Adair County
Officials
(Before January 2007)

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

(After January 2007)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Dolan	Board of Supervisors	Jan 2009
Robert Grasty	Board of Supervisors	Jan 2009
Bill Lamb	Board of Supervisors	Jan 2009
Steven Shelley	Board of Supervisors	Jan 2011
Cliff Sheriff	Board of Supervisors	Jan 2011
Jenice K. Wallace	County Auditor	Jan 2009
Ron Herr	County Treasurer	Deceased
Brenda Wallace (Appointed)	County Treasurer	Nov 2008
Janelle Schneider	County Recorder	Jan 2011
Randy Marchant	County Sheriff	Jan 2009
Michael Maynes	County Attorney	Jan 2011
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, 2007, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Adair County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Adair County at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2007 on our consideration of Adair County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adair County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 18, 2007

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, 2007. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities decreased 3%, or approximately \$228,000, from fiscal 2006 to fiscal 2007 with no significant changes.
- The County's expenses for governmental activities decreased 3.3%, or approximately \$227,000, from fiscal 2006 to fiscal 2007 with no significant changes.
- The County's net assets increased 7.9%, or approximately \$862,000, from June 30, 2006 to June 30, 2007 with no significant changes.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The County has three kinds of funds:

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2007	2006
Current and other assets	\$ 6,677	6,761
Capital assets	9,348	8,863
Total assets	<u>16,025</u>	<u>15,624</u>
Long-term liabilities	636	961
Other liabilities	3,573	3,708
Total liabilities	<u>4,209</u>	<u>4,669</u>
Net assets:		
Invested in capital assets	9,348	8,863
Restricted	2,129	2,028
Unrestricted	340	64
Total net assets	<u>\$ 11,817</u>	<u>10,955</u>

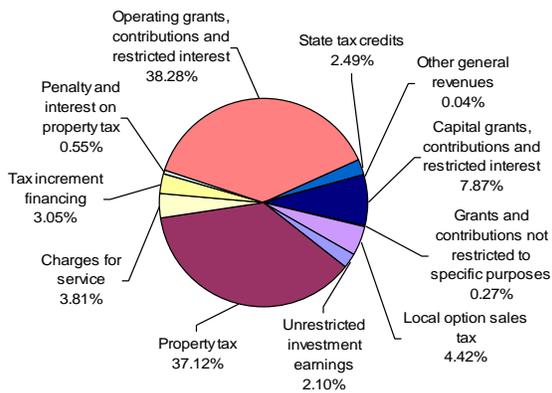
Net assets of Adair County's governmental activities increased approximately \$862,000, or 7.9%. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment). Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The increase in net assets invested in capital assets is the result of capital contributions from the Iowa Department of Transportation for road projects.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, is approximately \$340,000. Unrestricted net assets increased approximately \$276,000, or 431%, from fiscal year 2006 to fiscal 2007, due primarily to a reduction in capital loan notes.

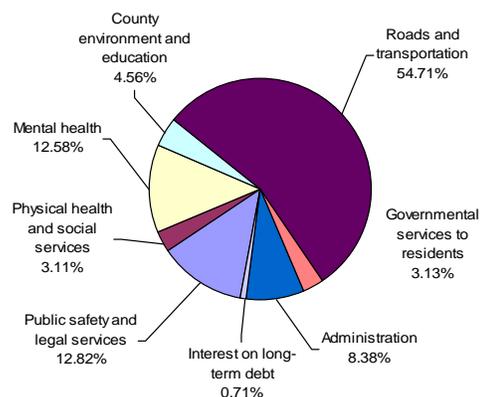
Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2007	2006
Revenues:		
Program revenues:		
Charges for service	\$ 285	258
Operating grants, contributions and restricted interest	2,865	2,959
Capital grants, contributions and restricted interest	589	806
General revenues:		
Property tax	2,778	2,807
Tax increment financing	228	197
Penalty and interest on property tax	41	42
State tax credits	186	199
Local option sales tax	331	288
Grants and contributions not restricted to specific purposes	20	21
Unrestricted investment earnings	157	125
Other general revenues	3	9
Total revenues	7,483	7,711
Program expenses:		
Public safety and legal services	849	855
Physical health and social services	206	188
Mental health	833	739
County environment and education	302	281
Roads and transportation	3,622	3,889
Governmental services to residents	207	297
Administration	555	541
Interest on long-term debt	47	58
Total expenses	6,621	6,848
Increase in net assets	862	863
Net assets beginning of year, as restated	10,955	10,092
Net assets end of year	\$ 11,817	10,955

Revenues by Source



Expenses by Function



The County increased property tax rates for 2007 approximately one cent per thousand dollars of taxable valuation for urban and rural taxpayers with no significant change in property tax revenue from the prior year. Based on an increase in the total assessed valuation and only a slight increase to the levy rate, property tax revenue is budgeted to increase by \$25,000 in 2008.

The cost of all governmental activities this year was \$6.6 million compared to \$6.7 million last year. Overall, the County's governmental activities program revenues, including intergovernmental aid and fees for service, decreased in 2007 from approximately \$4,023,000 to \$3,739,000, principally due to receiving substantially more capital grants from the Iowa Department of Transportation in the prior year. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$2,778,000 in taxes and other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Adair County completed the year, its governmental funds reported a combined fund balance of \$3.04 million, a modest increase of approximately \$34,000 above last year's total of \$3 million. The following are reasons for changes in fund balance of the major funds from the prior year:

- General Fund revenues exceeded expenditures. The ending fund balance increased approximately \$53,000 over the prior year to \$903,000. General Fund expenditures decreased while revenues from property tax, interest and intergovernmental sources decreased. There were no significant changes in revenues or expenditures.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$833,000, an increase of 12.8 % from the prior year after restatement. The Mental Health Fund balance at year end decreased approximately \$198,000 from the prior year. Clients continue to use waiver programs that are funded in part with state and federal dollars. Changes in the ARO program may affect future expenses. Expenditures increased primarily due to a \$47,000 increase in chronic mental illness expenditures.
- The Rural Services Fund ending fund balance decreased approximately \$8,000 from the prior year to \$145,000 with no significant changes.
- Secondary Roads Fund expenditures decreased approximately \$797,000 from the prior year. The FY06 ending balance of approximately \$992,000 increased approximately \$151,000, or 15.3%. The FY07 ending balance was approximately \$1.1 million. Other financing sources (uses) increased approximately \$20,000 over the prior year. Expenditures decreased primarily due to a Hungry Canyons project totaling \$387,000 completed in FY06.

BUDGETARY HIGHLIGHTS

Over the course of the year, Adair County amended its budget once. The amendment was done in May 2007 and resulted in an increase in budgeted disbursements, primarily related to urban renewal debt being paid off early, an adult rehab option program was discontinued so County assistance was increased and increased costs for a bridge project. Intergovernmental receipts increased to help defray the costs.

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

- County paid health insurance premiums decreased 2%. In 2004, Adair County purchased a higher deductible health insurance plan for County employees. The County used reserves in the Employee Health Insurance Fund to fund the difference in the deductibles for employee health insurance with this process also continuing in FY07. The self funding of a part of the health insurance deductible has helped to hold costs steady.
- The County paid approximately \$20,000 into the Employee Health Insurance Fund and paid out \$9,350 to County employees who had partially or totally met the self-funded deductible portion of the County's insurance policy during the fiscal year ending June 30, 2007. The County received a discount on premiums due to a favorable experience factor for premiums paid in FY07.
- Premiums paid for workman's compensation and other County insurance increased approximately 10% from FY06 to FY07. The County received a credit of \$5,446 from Iowa Communities Assurance Pool to reduce premiums as special recognition for fully funding the ICAP Cumulative Reserve Fund.
- Additional HAVA funds of \$5,191 were received to reimburse the County for election equipment and supplies purchased.
- The County Emergency Management Director resigned and, beginning in November, 2006, the County began to share a director with Guthrie County.
- Livestock confinement permit applications were time consuming for the Board of Supervisors and increased publication costs for notices and additional meetings.
- Elected officials received four percent salary increases, which were also passed down to deputies in the offices of elected officials and to other employees not covered by union contracts.
- Full time County employees received National Incident Management System training.
- The Sheriff's union contract was settled with a 3.2% increase for dispatchers effective July 1, 2006. Secondary Road union workers settled for a 3% increase on July 1, 2006.
- The mileage reimbursement rate for County employees was 35 cents per mile, which was still below the federal reimbursement rate of 48.5 cents per mile that was effective January 1, 2007.
- Property valuations used to compute tax rates decreased \$4.7 million in rural areas and increased \$172,000 in urban areas.
- Interest income increased from approximately \$136,000 in FY06 to the \$157,000 reported in FY07. The average interest rate received in FY06 was 3.79%. The average interest rate for FY07 calculated at an average of 4.68%.
- Rural County voters approved a local option tax for the County effective July 1, 2005. The Board of Supervisors approved the use of the tax for bridge maintenance and replacement of the County's 285 bridges. Actual revenue received from the tax was over \$331,000 in FY07.
- The annual jail inspection noted structural problems at the County jail. A structural engineer was hired and repairs were made.
- Counties will no longer be able to borrow ahead from the farm to market fund for Secondary Road projects, which could delay the start of some projects.

- The County Engineer resigned effective in February 2007. Scott Nixon, Union County Engineer, entered into a contract with Adair County to fill in at the rate of \$100 per hour for the purpose of signing bills and pay vouchers. Adair County and Cass County entered into a sharing agreement, effective May 1, 2007, to share the services of Charles Marker, Cass County Engineer. Expenses will be shared 50-50, with Mr. Marker to continue to be considered an employee of Cass County. Adair County will pay an administrative fee to Cass County.
- A Deputy Sheriff resigned in May 2007. It was decided to advertise and hire a replacement.
- The County Treasurer recommended joining the E Government Alliance for web based tax and vehicle collections due to questions raised over the way the former web site group allocated interest earned on the payments.
- County Treasurer Ronald Herr passed away on May 25, 2007, creating a vacancy in that office. The Supervisors voted on May 30, 2007 to advertise for applicants and appoint a new treasurer. The appointment needed to be completed within 40 days of the vacancy, or not later than July 4, 2007. This created a situation in which more overtime was paid for staff in the office. Brenda Wallace, a clerk in the office, applied for the position and was appointed to fill the vacancy effective June 27, 2007.
- Talks with other local entities began in July 2006 to consider what steps to take to fund the required improvements needed at the local landfill. The landfill will borrow the money needed and the County will not issue general obligation bonds to fund the project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, Adair County had approximately \$13 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. Major additions included \$385,000 contributed by the Iowa DOT, bridge projects, replacement of a motor grader, sidewalk replacement at the Courthouse and vehicles for the Sheriff and Conservation Departments totaling approximately \$1 million.

Capital Assets of Governmental Activities at Year End		
(Expressed in Thousands)		
	June 30,	
	2007	2006
Land	\$ 336	336
Land, road network	34	34
Construction in progress	322	246
Buildings and improvements	471	486
Improvements other than buildings	105	98
Equipment and vehicles	2,245	2,375
Infrastructure, road network	5,835	5,288
Total	<u>\$ 9,348</u>	<u>8,863</u>
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation	\$ 385	
Bridge construction projects	407	
Replacement of motor grader	192	
Sidewalk replacement at the Courthouse	12	
County Sheriff and Conservation vehicles	51	
Total	<u>\$ 1,047</u>	

The County had depreciation expense of \$461,012 in FY07 and total accumulated depreciation of \$3.6 million at June 30, 2007. The County's fiscal year 2007 capital budget included \$641,000 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

At June 30, 2007, Adair County had approximately \$502,000 in capital loan notes outstanding, a decrease of \$343,000, or 40.6%, from June 30, 2006.

The Constitution of the State of Iowa limits the amount of debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Adair County's outstanding debt is significantly below its constitutional debt limit of \$23.7 million. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The local option sales tax will generate funds to rebuild County bridges. Adair County has a large number of bridges, with many in need of repair or replacement. The local option sales tax will remain in effect for five more years. It has been estimated the County will receive \$348,000 in FY08.

A preliminary discussion was held to consider the need of a feasibility study to see if the over 100 year old jail should be replaced.

The County will upgrade the real estate software system in FY08. The \$53,545 contract for software upgrades is with Tyler Technologies. Part of the cost will be paid from the County Assessor's budget.

Adair County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and the fees charged for various County activities. One of those factors is the economy. Unemployment in the County now stands at 3.1 percent versus 3 percent a year ago. This compares with the State's unemployment rate of 3.8 percent and the national rate of 4.5 percent.

Fuel costs continued to increase. The budgets of the Secondary Roads Department and the Sheriff were the most affected.

The County will continue to set dollars aside for the SIRWA water project.

The County Conservation Board will proceed with plans to construct a new shelter house at Mormon Trail with donations received and set aside over the past several years.

Bids were taken for tuckpointing and courthouse step repairs. The project will be paid for from dollars designated for such repairs by the Supervisors in the FY08 budget.

Postage rates increased in May 2007. With many new regulations, the cost for mailing will increase, with offices doing a high volume of mail most affected.

The County received a discount on health insurance premiums for the third fiscal year in a row. The health insurance premium actually decreased slightly from FY07 to FY08. The dental insurance rate remained the same.

A new three year union agreement was negotiated in December 2006. The first year of the union contract will increase the wage rate for Sheriff's dispatchers 4% and a 4% increase for Secondary Roads workers will be effective July 1, 2007.

Elected officials, deputies and non-union employees in the offices of the elected officials will receive pay increases of 5%. Non-union employees within the Secondary Roads area will receive 4% pay raises.

A new County Auditor will be appointed to fill a vacancy.

These indicators were taken into account when adopting the budget for fiscal year 2008. No increases in property tax levies were approved. The mental health levy will decrease very slightly.

Amounts available for appropriation in the FY08 operating budget are \$7.9 million, a decrease of 3 percent over the final 2007 budget. Projected property tax revenues increased \$25,000.

Budgeted disbursements are expected to decrease approximately \$393,000. The largest decrease of approximately \$183,000 is in the roads and transportation area. Capital projects will decrease \$155,000 and mental health \$54,800. Debt service will also decrease \$181,184. The County has added no major new programs or initiatives to the 2008 budget. If these estimates are realized, the County's budgetary operating balance is expected to decrease \$242,000 by the close of 2008, with the General Fund balance estimated at 24% of disbursements, the Rural Services Fund at 13%, the Secondary Roads Fund at 21% and the Mental Health Fund at 4% of disbursements.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

Adair County

Basic Financial Statements

Exhibit A

Adair County
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 2,760,135
Receivables:	
Property tax:	
Delinquent	5,795
Succeeding year	2,891,000
Interest and penalty on property tax	15,858
Succeeding year tax increment financing	244,000
Accounts	2,611
Accrued interest	13,774
Due from other governments	327,726
Inventories	252,416
Prepaid items	163,584
Capital assets (net of accumulated depreciation)	9,348,261
Total assets	<u>16,025,160</u>
Liabilities	
Accounts payable	223,884
Accrued interest payable	2,653
Salaries and benefits payable	40,589
Due to other governments	170,684
Deferred revenue:	
Succeeding year property tax	2,891,000
Succeeding year tax increment financing	244,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital loan notes	50,000
Compensated absences	84,244
Portion due or payable after one year:	
Capital loan notes	451,954
Compensated absences	49,497
Total liabilities	<u>4,208,505</u>
Net Assets	
Invested in capital assets	9,348,261
Restricted for:	
Supplemental levy purposes	249,479
Secondary roads purposes	1,060,358
Other purposes	818,771
Unrestricted	339,786
Total net assets	<u>\$ 11,816,655</u>

See notes to financial statements.

Adair County

Statement of Activities

Year ended June 30, 2007

	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	\$ 849,467	32,691	14,432	-	(802,344)
Physical health and social services	205,790	5,467	49,762	-	(150,561)
Mental health	832,901	30,184	294,548	-	(508,169)
County environment and education	301,538	24,506	14,417	11,025	(251,590)
Roads and transportation	3,622,181	36,416	2,461,618	572,396	(551,751)
Governmental services to residents	206,875	140,965	203	5,191	(60,516)
Administration	554,459	14,446	400	-	(539,613)
Interest on long-term debt	47,256	-	29,329	-	(17,927)
Total	\$ 6,620,467	284,675	2,864,709	588,612	(2,882,471)
General Revenues:					
Property and other county tax levied for general purposes					2,777,891
Tax increment financing					228,134
Penalty and interest on property tax					40,653
State tax credits					185,603
Local option sales tax					331,171
Grants and contributions not restricted to specific purpose					20,561
Unrestricted investment earnings					156,968
Miscellaneous					3,543
Total general revenues					3,744,524
Change in net assets					862,053
Net assets beginning of year, as restated					10,954,602
Net assets end of year					\$ 11,816,655

See notes to financial statements.

Adair County
Balance Sheet
Governmental Funds

June 30, 2007

	General	Special	
		Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 839,427	132,928	150,429
Receivables:			
Property tax:			
Delinquent	4,016	858	921
Succeeding year	1,641,000	288,000	962,000
Interest and penalty on property tax	15,858	-	-
Succeeding year tax increment financing	-	-	-
Accounts	1,056	980	-
Accrued interest	12,908	-	-
Due from other funds	-	-	-
Due from other governments	18,708	-	-
Inventories	-	-	-
Prepaid items	84,066	-	870
Total assets	\$ 2,617,039	422,766	1,114,220
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 17,780	18,493	879
Salaries and benefits payable	11,647	387	5,641
Due to other funds	3,317	-	-
Due to other governments	20,659	149,407	-
Deferred revenue:			
Succeeding year property tax	1,641,000	288,000	962,000
Succeeding year tax increment financing	-	-	-
Other	19,643	704	921
Total liabilities	1,714,046	456,991	969,441
Fund balances:			
Reserved for:			
Supplemental levy purposes	249,180	-	-
Debt service	-	-	-
Unreserved, designated for:			
Three Mile structure repair	-	-	10,000
Courthouse repair and other capital projects	32,000	-	-
Greenfield street project	42,025	-	-
Motorgrader	-	-	-
Ambulance and equipment replacement	20,000	-	-
Unreserved, undesignated, reported in:			
General fund	559,788	-	-
Special revenue funds	-	(34,225)	134,779
Total fund balances	902,993	(34,225)	144,779
Total liabilities and fund balances	\$ 2,617,039	422,766	1,114,220

See notes to financial statements.

Revenue		
Secondary		
Roads	Nonmajor	Total
747,520	844,260	2,714,564
-	-	5,795
-	-	2,891,000
-	-	15,858
-	244,000	244,000
575	-	2,611
-	866	13,774
3,317	-	3,317
263,964	45,054	327,726
252,416	-	252,416
78,648	-	163,584
<u>1,346,440</u>	<u>1,134,180</u>	<u>6,634,645</u>
179,837	3,894	220,883
22,914	-	40,589
-	-	3,317
618	-	170,684
-	-	2,891,000
-	244,000	244,000
-	-	21,268
<u>203,369</u>	<u>247,894</u>	<u>3,591,741</u>
-	-	249,180
-	67,515	67,515
-	-	10,000
-	-	32,000
-	-	42,025
138,671	-	138,671
-	-	20,000
-	-	559,788
1,004,400	818,771	1,923,725
<u>1,143,071</u>	<u>886,286</u>	<u>3,042,904</u>
<u>1,346,440</u>	<u>1,134,180</u>	<u>6,634,645</u>

Adair County

Adair County

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

June 30, 2007

Total governmental fund balances (page 21) \$ 3,042,904

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 \$12,916,970 and the accumulated depreciation is \$3,568,709. 9,348,261

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 21,268

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 42,571

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. (638,349)

Net assets of governmental activities (page 18) \$ 11,816,655

See notes to financial statements.

Adair County

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

Year ended June 30, 2007

	General	Special	
		Mental Health	Rural Services
Revenues:			
Property and other county tax	\$ 1,560,342	290,121	937,400
Tax increment financing	-	-	-
Local option sales tax	-	-	-
Interest and penalty on property tax	24,795	-	-
Intergovernmental	189,733	344,008	61,767
Licenses and permits	4,462	-	1,005
Charges for service	185,933	-	-
Use of money and property	150,070	-	100
Miscellaneous	3,295	868	174
Total revenues	<u>2,118,630</u>	<u>634,997</u>	<u>1,000,446</u>
Expenditures:			
Operating:			
Public safety and legal services	846,489	-	-
Physical health and social services	196,791	-	8,999
Mental health	-	832,900	-
County environment and education	213,523	-	82,745
Roads and transportation	-	-	154,337
Governmental services to residents	206,655	-	2,332
Administration	534,470	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	<u>1,997,928</u>	<u>832,900</u>	<u>248,413</u>
Excess (deficiency) of revenues over (under) expenditures	<u>120,702</u>	<u>(197,903)</u>	<u>752,033</u>
Other financing sources (uses):			
Sale of capital assets	3,000	-	-
Operating transfers in	-	-	-
Operating transfers out	(70,332)	-	(759,718)
Total other financing sources (uses)	<u>(67,332)</u>	<u>-</u>	<u>(759,718)</u>
Net change in fund balances	53,370	(197,903)	(7,685)
Fund balances beginning of year, as restated	849,623	163,678	152,464
Fund balances end of year	<u>\$ 902,993</u>	<u>(34,225)</u>	<u>144,779</u>

See notes to financial statements.

Revenue		
Secondary		Total
Roads	Nonmajor	
-	-	2,787,863
-	228,134	228,134
-	331,171	331,171
-	-	24,795
2,633,375	24,139	3,253,022
425	-	5,892
10	1,996	187,939
-	42,050	192,220
43,451	11,425	59,213
<u>2,677,261</u>	<u>638,915</u>	<u>7,070,249</u>
-	2,225	848,714
-	-	205,790
-	-	832,900
-	950	297,218
3,053,980	-	3,208,317
-	-	208,987
-	-	534,470
-	392,157	392,157
289,425	221,729	511,154
<u>3,343,405</u>	<u>617,061</u>	<u>7,039,707</u>
(666,144)	21,854	30,542
-	-	3,000
817,550	12,500	830,050
-	-	(830,050)
<u>817,550</u>	<u>12,500</u>	<u>3,000</u>
151,406	34,354	33,542
991,665	851,932	3,009,362
<u>1,143,071</u>	<u>886,286</u>	<u>3,042,904</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, 2007

Net change in fund balances - Total governmental funds (page 25) \$ 33,542

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	\$ 597,118	
Capital assets contributed by the Iowa Department of Transportation	384,979	
Depreciation expense	(461,012)	521,085

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (35,665)

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	626	
Other	5,261	5,887

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. 342,763

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	(17,431)	
Interest on long-term debt	2,142	(15,289)

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. 9,730

Change in net assets of governmental activities (page 19) \$ 862,053

See notes to financial statements.

Adair County
 Statement of Net Assets
 Proprietary Fund

June 30, 2007

	Internal Service - Employee Health Insurance
Assets	
Cash and cash equivalents	\$ 45,571
Liabilities	
Accounts payable	3,000
Net Assets	
Unrestricted	\$ 42,571

See notes to financial statements.

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

Year ended June 30, 2007

		<u>Internal Service - Employee Health Insurance</u>
Operating revenues:		
Contributions from employer		\$ 19,693
Operating expenses:		
Medical claims	\$ 9,350	
Administrative fees	2,321	11,671
Operating income	<u> </u>	<u>8,022</u>
Non-operating revenues:		
Interest income		1,708
Net income		<u>9,730</u>
Net assets beginning of year		<u>32,841</u>
Net assets end of year		<u><u>\$ 42,571</u></u>

See notes to financial statements.

Adair County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2007

	Internal Service - Employee Health Insurance
Cash flows from operating activities:	
Cash received from employer	\$ 19,693
Cash paid to suppliers for services	(9,750)
Net cash provided by operating activities	9,943
Cash flows from investing activities:	
Interest on investments	1,708
Net increase in cash and cash equivalents	11,651
Cash and cash equivalents beginning of year	33,920
Cash and cash equivalents end of year	\$ 45,571
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 8,022
Adjustment to reconcile operating income to net cash provided by operating activities:	
Increase in accounts payable	1,921
Net cash provided by operating activities	\$ 9,943

See notes to financial statements.

Adair County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2007

Assets

Cash and pooled investments:

County Treasurer \$ 381,833

Other county officials 4,961

Receivables:

Property tax:

Delinquent 23,108

Succeeding year 7,773,000

Special assessments 36,984

Prepaid expense 6,978

Total assets 8,226,864

Liabilities

Accounts payable 166

Salaries and benefits payable 521

Due to other governments 8,209,944

Trusts payable 5,078

Compensated absences 11,155

Total liabilities 8,226,864

Net assets \$ -

See notes to financial statements.

Adair County

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

Special Revenue:

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

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

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

Additionally, the County reports the following funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2006.

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

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2007, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

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

Asset Class	Amount
Infrastructure	\$ 65,000
Land, buildings and improvements	5,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings and improvements	25 - 50
Land improvements	10 - 50
Infrastructure	10 - 65
Equipment	3 - 20
Vehicles	3 - 15

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivable and tax increment financing not collected within sixty days after year end and unspent grant proceeds.

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

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Accumulated sick leave is generally paid at 30%, not to exceed 90 days, upon retirement. Certain employees are annually paid for 20% of sick leave hours in excess of 90 days. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Secondary Roads Funds.

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

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted or the amounts appropriated.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2007 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 \$465,855 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

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

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

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue: Secondary Roads	General	\$ 3,317

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

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	General	\$ 57,832
	Special Revenue: Rural Services	759,718
SIRWA Grid	General	12,500
Total		\$ 830,050

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, 2007 was as follows:

	Balance			Balance
	Beginning of			End of
	Year	Increases	Decreases	Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 336,067	-	-	336,067
Land, road network	34,220	-	-	34,220
Construction in progress	245,862	792,325	716,503	321,684
Total capital assets not being depreciated	616,149	792,325	716,503	691,971
Capital assets being depreciated:				
Buildings	653,380	-	-	653,380
Improvements other than buildings	174,501	12,148	-	186,649
Equipment and vehicles	5,151,098	242,624	224,966	5,168,756
Infrastructure, road network	5,499,711	716,503	-	6,216,214
Total capital assets being depreciated	11,478,690	971,275	224,966	12,224,999
Less accumulated depreciation for:				
Buildings	167,843	13,983	-	181,826
Improvements other than buildings	76,108	5,997	-	82,105
Equipment and vehicles	2,775,794	272,066	124,301	2,923,559
Infrastructure, road network	212,253	168,966	-	381,219
Total accumulated depreciation	3,231,998	461,012	124,301	3,568,709
Total capital assets being depreciated, net	8,246,692	510,263	100,665	8,656,290
Governmental activities capital assets, net	\$ 8,862,841	1,302,588	817,168	9,348,261

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 21,742
County environment and education	22,580
Roads and transportation	409,552
Administration	7,138
Total depreciation expense - governmental activities	<u>\$ 461,012</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	\$ 20,659
Special Revenue:		
Mental Health	Services	149,407
Secondary Roads	Services	618
		<u>150,025</u>
Total for governmental funds		<u>\$ 170,684</u>
Agency:		
County Assessor	Collections	\$ 213,826
Schools		4,909,575
Community Colleges		219,439
Corporations		1,285,966
Townships		215,070
County Hospital		1,027,985
Auto License and Use Tax		181,945
All other		156,138
Total for agency funds		<u>\$ 8,209,944</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Capital Loan Notes Payable	Compensated Absences	Total
Balance beginning of year	\$ 844,717	116,310	961,027
Increases	-	117,092	117,092
Decreases	342,763	99,661	442,424
Balance end of year	<u>\$ 501,954</u>	<u>133,741</u>	<u>635,695</u>
Due within one year	<u>\$ 50,000</u>	<u>84,244</u>	<u>134,244</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. These notes were used to plan, undertake and carry out an urban renewal project, including the purchase of water, sewer and street paving improvements. The County paid \$9,030 in interest and the remaining principal of \$172,000 during the year ended June 30, 2007.

On May 1, 2001, the County issued \$630,000 of urban renewal revenue capital loan notes. The notes bear interest at 6 percent per annum and mature in varying annual amounts ranging from \$50,000 to \$90,000, with final maturity in June 2013. The note proceeds were used to provide a grant to the Iowa Interstate Railroad for construction of a rail spur line to serve the I-80 industrial business park. During the year ended June 30, 2007, in addition to the scheduled principal due of \$55,000, the County paid an additional \$60,000 in principal which was due during the year ending June 30, 2008.

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, 2007, interest of \$11,563 and principal of \$55,763 were paid on the note. The balance remaining on the note at June 30, 2007 was \$136,954.

Details of the County's June 30, 2007 capital loan note indebtedness for which formal repayment schedules have been established are as follows:

Year Ending June 30,	Urban Renewal Revenue Notes		
	May 1, 2001		
	Interest Rate	Principal	Interest
2009	6.00%	\$ 60,000	21,900
2010	6.00	65,000	18,300
2011	6.00	70,000	14,400
2012	6.00	80,000	10,200
2013	6.00	90,000	5,400
Total		\$ 365,000	70,200

During the year ended June 30, 2007, the County retired \$172,000 of urban renewal revenue capital loan notes dated November 25, 1998 and \$115,000 of urban renewal revenue capital loan notes dated May 1, 2001.

The urban renewal revenue capital loan notes are payable solely from the taxes paid into the Special Revenue, Urban Renewal Fund pursuant to Chapter 403.19 of the Code of Iowa and other funds derived or held in connection with the projects related to these note issues. The County's urban renewal plan dated February 25, 1998 includes 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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$125,308, \$123,630 and \$119,612, 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 556 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, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 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 contributions to the Pool for the year ended June 30, 2007 were \$106,140.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2007, no liability has been recorded in the County's financial statements. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

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

(10) Employee Health Insurance Plan

The Internal Service, Employee Health Insurance Fund was established to account for the partial self funding of the County's health insurance deductibles. The plan is funded by County contributions and is administered by the County. The County assumes liability for claims up to the individual deduction limitations of \$1,000 and \$2,000 for single and family coverage, respectively.

Contributions to the Employee Health Insurance Fund are recorded as expenditures from the operating funds. The County's contribution for the year ended June 30, 2007 was \$19,693.

Amounts payable from the Employee Health Insurance Fund at June 30, 2007 total \$3,000, which is for incurred but not reported (IBNR) and reported but not paid claims. The County was not required to obtain an actuarial report for the period ended June 30, 2007 since its plan qualifies as a "mini plan." A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 1,079
Incurred claims (including claims incurred but not reported at June 30, 2007)	11,271
Payments on claims during the fiscal year	<u>(9,350)</u>
Unpaid claims end of year	<u>\$ 3,000</u>

(11) Restatement

The beginning fund balance for the Mental Health Fund has been restated to correct an error in reporting prior year payables. The restatement decreased the beginning fund balance, as follows:

	<u>Amount</u>
Fund balance June 30, 2006, as previously reported	\$ 263,678
Previously unrecorded payables	<u>(100,000)</u>
Fund balance July 1, 2006, as restated	<u>\$ 163,678</u>

Beginning net assets for governmental activities has been restated to correct an error in reporting prior year payables. The restatement decreased the beginning net assets, as follows:

	<u>Amount</u>
Fund balance June 30, 2006, as previously reported	\$ 11,054,602
Previously unrecorded payables	<u>(100,000)</u>
Fund balance July 1, 2006, as restated	<u>\$ 10,954,602</u>

Adair County

Required Supplementary Information

Adair County

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2007

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Property and other county tax	\$ 3,323,941	3,184,650	3,285,542	38,399
Interest and penalty on property tax	26,241	34,000	34,000	(7,759)
Intergovernmental	3,174,124	3,172,630	3,339,586	(165,462)
Licenses and permits	5,767	9,170	6,870	(1,103)
Charges for service	188,073	165,721	185,767	2,306
Use of money and property	186,418	119,700	165,131	21,287
Miscellaneous	58,872	14,958	40,234	18,638
Total receipts	6,963,436	6,700,829	7,057,130	(93,694)
Disbursements:				
Public safety and legal services	851,865	846,741	870,741	18,876
Physical health and social services	194,598	244,133	235,605	41,007
Mental health	842,546	704,805	843,820	1,274
County environment and education	294,030	297,121	297,121	3,091
Roads and transportation	3,532,425	3,504,107	3,654,107	121,682
Governmental services to residents	208,714	217,785	215,685	6,971
Administration	550,054	558,448	569,179	19,125
Debt service	392,156	189,330	392,157	1
Capital projects	516,597	413,000	641,000	124,403
Total disbursements	7,382,985	6,975,470	7,719,415	336,430
Excess (deficiency) of receipts over (under) disbursements	(419,549)	(274,641)	(662,285)	242,736
Other financing sources, net	3,000	3,500	3,000	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(416,549)	(271,141)	(659,285)	242,736
Balance beginning of year, as restated	3,131,113	3,019,904	3,099,148	31,965
Balance end of year	\$ 2,714,564	2,748,763	2,439,863	274,701

See accompanying independent auditor's report.

Adair County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2007

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 6,963,436	106,813	7,070,249
Expenditures	7,382,985	(343,278)	7,039,707
Net	(419,549)	450,091	30,542
Other financing sources, net	3,000	-	3,000
Beginning fund balances, as restated	3,131,113	(121,751)	3,009,362
Ending fund balances	\$ 2,714,564	328,340	3,042,904

See accompanying independent auditor's report.

Adair County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

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

Formal and legal budgetary control is based upon 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 and the Special Revenue Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$743,945. The budget amendment is 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, 2007, disbursements did not exceed the amounts budgeted or the amounts appropriated.

Other Supplementary Information

Adair County
 Combining Balance Sheet
 Nonmajor Special Revenue Funds

June 30, 2007

	Resource Enhance- ment and Protection	County Recorder's Records Management	Sheriff's Reserve
Assets			
Cash and pooled investments	\$ 130,725	5,729	1,514
Receivables:			
Succeeding year tax increment financing	-	-	-
Accrued interest	333	-	-
Due from other governments	2,530	-	-
Total assets	\$ 133,588	5,729	1,514
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ -	-	-
Deferred revenue:			
Succeeding year tax increment financing	-	-	-
Total liabilities	-	-	-
Fund equity:			
Fund balances:			
Reserved for debt service	-	-	-
Unreserved, undesignated	133,588	5,729	1,514
Total fund equity	133,588	5,729	1,514
Total liabilities and fund equity	\$ 133,588	5,729	1,514

See accompanying independent auditor's report.

Special Law Enforcement	Urban Renewal	Local Option Sales Tax	SIRWA Grid	Conservation Land Acquisition	Total
4,202	130,313	254,532	26,249	290,996	844,260
-	244,000	-	-	-	244,000
-	-	-	-	533	866
-	-	42,524	-	-	45,054
4,202	374,313	297,056	26,249	291,529	1,134,180
-	-	2,944	-	950	3,894
-	244,000	-	-	-	244,000
-	244,000	2,944	-	950	247,894
-	67,515	-	-	-	67,515
4,202	62,798	294,112	26,249	290,579	818,771
4,202	130,313	294,112	26,249	290,579	886,286
4,202	374,313	297,056	26,249	291,529	1,134,180

Adair County

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

Year ended June 30, 2007

	Resource Enhance- ment and Protection	County Recorder's Records Management	Sheriff's Reserve
Revenues:			
Tax increment financing	\$ -	-	-
Local option sales tax	-	-	-
Intergovernmental	8,857	-	414
Charges for service	-	1,911	-
Use of money and property	5,560	203	107
Miscellaneous	-	-	400
Total revenues	14,417	2,114	921
Expenditures:			
Operating:			
Public safety and legal services	-	-	2,225
County environment and education	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	-	-	2,225
Excess (deficiency) of revenues over (under) expenditures	14,417	2,114	(1,304)
Other financing sources:			
Operating transfers in	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	14,417	2,114	(1,304)
Fund balances beginning of year	119,171	3,615	2,818
Fund balances end of year	\$ 133,588	5,729	1,514

See accompanying independent auditor's report.

Special Law Enforcement	Urban Renewal	Local Option Sales Tax	SIRWA Grid	Conservation Land Acquisition	Total
-	228,134	-	-	-	228,134
-	-	331,171	-	-	331,171
-	14,868	-	-	-	24,139
-	-	-	-	85	1,996
181	15,329	9,689	1,076	9,905	42,050
-	-	-	-	11,025	11,425
181	258,331	340,860	1,076	21,015	638,915
-	-	-	-	-	2,225
-	-	-	-	950	950
-	392,157	-	-	-	392,157
-	-	221,729	-	-	221,729
-	392,157	221,729	-	950	617,061
181	(133,826)	119,131	1,076	20,065	21,854
-	-	-	12,500	-	12,500
181	(133,826)	119,131	13,576	20,065	34,354
4,021	264,139	174,981	12,673	270,514	851,932
4,202	130,313	294,112	26,249	290,579	886,286

Adair County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2007

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	1,764	57,313	82,673
Other County officials	4,961	-	-	-
Receivables:				
Property tax:				
Delinquent	-	232	343	10,902
Succeeding year	-	102,000	161,000	4,816,000
Special assessments	-	-	-	-
Prepaid expense	-	-	6,978	-
Total assets	\$ 4,961	103,996	225,634	4,909,575
Liabilities				
Accounts payable	\$ -	-	132	-
Salaries and benefits payable	-	-	521	-
Due to other governments	4,961	103,996	213,826	4,909,575
Trusts payable	-	-	-	-
Compensated absences	-	-	11,155	-
Total liabilities	\$ 4,961	103,996	225,634	4,909,575

See accompanying independent auditor's report.

Community Colleges	Corpor- ations	Townships	County Hospital	Auto License and Use Tax	Other	Total
3,922	18,510	3,741	17,659	181,945	14,306	381,833
-	-	-	-	-	-	4,961
517	8,456	329	2,326	-	3	23,108
215,000	1,259,000	211,000	1,008,000	-	1,000	7,773,000
-	-	-	-	-	36,984	36,984
-	-	-	-	-	-	6,978
<u>219,439</u>	<u>1,285,966</u>	<u>215,070</u>	<u>1,027,985</u>	<u>181,945</u>	<u>52,293</u>	<u>8,226,864</u>
-	-	-	-	-	34	166
-	-	-	-	-	-	521
219,439	1,285,966	215,070	1,027,985	181,945	47,181	8,209,944
-	-	-	-	-	5,078	5,078
-	-	-	-	-	-	11,155
<u>219,439</u>	<u>1,285,966</u>	<u>215,070</u>	<u>1,027,985</u>	<u>181,945</u>	<u>52,293</u>	<u>8,226,864</u>

Adair County

Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2007

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 7,618	97,186	192,515	4,604,850
Additions:				
Property and other county tax	-	102,745	161,241	4,825,608
State tax credits	-	6,363	9,386	299,248
Office fees and collections	162,005	-	-	-
Electronic transaction fees	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	3,099,419	-	-	-
Miscellaneous	-	-	1,070	-
Total additions	3,261,424	109,108	171,697	5,124,856
Deductions:				
Agency remittances:				
To other funds	82,583	-	-	-
To other governments	82,079	102,298	138,578	4,820,131
Trusts paid out	3,099,419	-	-	-
Total deductions	3,264,081	102,298	138,578	4,820,131
Balances end of year	\$ 4,961	103,996	225,634	4,909,575

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	County Hospital	Auto License and Use Tax	Other	Total
217,077	1,220,457	213,228	975,003	147,822	63,380	7,739,136
215,453	1,691,681	210,551	1,010,714	-	1,287	8,219,280
14,107	88,054	14,188	63,711	-	86	495,143
-	-	-	-	-	-	162,005
-	-	-	-	-	1,921	1,921
-	-	-	-	2,034,136	-	2,034,136
-	-	-	-	-	6,514	6,514
-	-	-	-	-	90,983	3,190,402
-	-	-	-	-	7,250	8,320
229,560	1,779,735	224,739	1,074,425	2,034,136	108,041	14,117,721
-	-	-	-	73,397	-	155,980
227,198	1,714,226	222,897	1,021,443	1,926,616	119,128	10,374,594
-	-	-	-	-	-	3,099,419
227,198	1,714,226	222,897	1,021,443	2,000,013	119,128	13,629,993
219,439	1,285,966	215,070	1,027,985	181,945	52,293	8,226,864

Adair County

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

For the Last Eight Years

	2007	2006	2005
Revenues:			
Property and other county tax	\$ 2,787,863	2,811,648	2,759,307
Tax increment financing	228,134	197,312	177,752
Local option sales tax	331,171	288,283	-
Interest and penalty on property tax	24,795	30,144	36,769
Intergovernmental	3,253,022	3,698,104	3,260,303
Licenses and permits	5,892	8,773	7,082
Charges for service	187,939	194,725	189,774
Use of money and property	192,220	145,577	86,316
Miscellaneous	59,213	56,182	59,825
Total	\$ 7,070,249	7,430,748	6,577,128
Expenditures:			
Operating:			
Public safety and legal services	\$ 848,714	838,304	886,203
Physical health and social services	205,790	187,905	199,768
Mental health	832,900	738,628	622,373
County environment and education	297,218	282,131	274,487
Roads and transportation	3,208,317	3,689,971	3,229,715
Governmental services to residents	208,987	283,523	256,920
Administration	534,470	532,093	512,160
Debt service	392,157	204,537	166,302
Capital projects	511,154	707,302	299,472
Total	\$ 7,039,707	7,464,394	6,447,400

See accompanying independent auditor's report.

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

Adair County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Officials of Adair County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Adair County, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated October 18, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (D) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

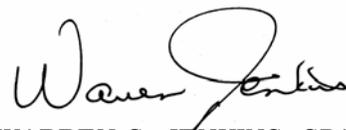
Adair County's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit Adair County's responses and, accordingly, we express no opinion on them.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 18, 2007

Adair County

Schedule of Findings

Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (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. One or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:
- (1) Treasurer – The bank accounts were not reconciled or reviewed by an independent person who does not sign checks, handle or record cash.
 - (2) Conservation – The Conservation Officer counts funds from camping receipts, prepares the deposit and takes the deposit to the Treasurer's Office.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances. The officials should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports.

Response –

Treasurer – An employee will reconcile each banking account and then the Treasurer will perform a reconciliation for review with signature and date. A different County office will review the bank reconciliations.

Conservation – The Director and Conservation Board will review the procedures to obtain maximum internal control. It will be very difficult to find a different procedure than what is currently being done with the current staff of two with multiple duties and responsibilities. The segregation of duties will be very difficult to obtain without hiring additional staff to work in the office.

Conclusion –

Treasurer – Response accepted

Conservation – Response accepted.

- (B) Information Systems – The following weaknesses in the County's computer based systems were noted:
- Computer passwords are shared. Also, there is no written policy prohibiting the sharing of passwords.
 - User profiles are not reviewed and user IDs are not changed after an employee changes duties.
 - Users are not restricted to programs for which they have legitimate need.

Adair County

Schedule of Findings

Year ended June 30, 2007

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 have reviewed user ID’s for employees no longer working for the County in August 2007. We will review the County computer use policy.

Conclusion – Response accepted.

- (C) Receipts – Voided receipts and related documentation were not always retained.

Recommendation – Voided receipts and related supporting documentation should always be retained.

Response – We will document a reason for the void on the voided receipts, the nightly report and the County Auditor’s copy. A signature will be provided on the voided receipt by the person who voided the receipt and either the County Treasurer or Deputy County Treasurer. We will also keep our void log on the computer.

Conclusion – Response accepted.

- (D) Financial Reporting – During the audit, we identified material amounts of payables and capital asset infrastructure additions not recorded in the County’s financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Recommendation – The County should implement procedures to ensure all payables and capital asset infrastructure additions are identified and included in the County’s financial statements.

Response –

County Auditor – We will communicate with the CPC and other departments to be sure all the bills for the previous fiscal year have been received or estimated.

Engineer – The County will strive to properly identify and include all costs to each project as requested.

Conclusion –

County Auditor – Response accepted.

Engineer – Response accepted.

- (E) Deficit Fund Balance – The Mental Health Fund had a deficit fund balance of \$34,225 at June 30, 2007.

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

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

Conclusion – Response accepted.

Adair County

Schedule of Findings

Year ended June 30, 2007

(F) Conservation – Camping receipts were not deposited timely.

Recommendation – Camping receipts should be deposit timely to minimize the chance of theft or misappropriation of assets.

Response – The Director will attempt to make camping receipt deposits in a timelier manner. With the limited staff this will be difficult.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Adair County

Schedule of Findings

Year ended June 30, 2007

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted or the amounts appropriated.
- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- (4) Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Bill Lamb, Supervisor, father of owner of Lamb Tiling	Snow removal for the County in March 2007	\$ 7,500
John Gruss, Conservation Board, owner of Schultz Plumbing and Heating	Repair water service damaged by County bulldozer	83
RaeDean Bidelow, General Relief Director, husband is owner of Bidelow Weld Repair	Bearing, steel valve and labor	80
Rick Mikkelsen, Secondary Road Superintendent, son-in-law is part owner for R&D Services	Diesel fuel purchased for motorgrader	6,418

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions under \$1,500 do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

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

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

Response – Roads in Adair County were blocked with snow due to a blizzard. Due to the large amount of snowfall, local contractors were used to help county equipment clear snow to expedite snow removal for emergency vehicles and the traveling public. Lamb Tiling was one of the local contractors used. We will consult with our County Attorney for disposition of this matter. R & D Service is the only provider of off road diesel in Stuart. The County will consult with the County Attorney.

Conclusion – Response accepted.

Adair County

Schedule of Findings

Year ended June 30, 2007

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

Disbursements during the year ended June 30, 2007 for the County Extension Office did not exceed the amount budgeted.

The County Extension Office is required to publish a summary of receipts and disbursements for the fiscal year. The annual report was published. However, several of the amounts published were incorrect.

The responsibilities for collection, deposit preparation and reconciliation are not segregated from the recording and accounting of cash receipts.

Recommendation – The County Extension Office's annual report should be reviewed and amounts traced to the accounting records to ensure accurate information is published.

Response – A problem exists in the current Quicken system. Since Iowa State University does not support the Quicken system, the problem could not be resolved. Adair County Extension will be moving to the Cougar Mountain bookkeeping system in October 2007. Iowa State University supports this system.

Effective July 30, 2007 a new bookkeeper has been hired. The job description segregates responsibilities so the office assistant will be responsible for collection of cash while the bookkeeper will be responsible for recording and accounting of cash receipts.

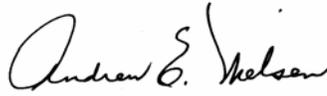
Conclusion – Response accepted.

Adair County

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Philip J. Cloos, Staff Auditor
Shelley M. Allen, Assistant Auditor
Delynne M. Kroeger, Assistant Auditor
Jessica M. Meierotto, Assistant Auditor



Andrew E. Nielsen, CPA
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