

CITY OF ADAIR

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2008

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditors' Report		5-6
Management's Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	15-16
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	17-18
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	19
Notes to Financial Statements		20-27
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		29-30
Notes to Required Supplementary Information – Budgetary Reporting		31
Other Supplementary Information:	<u>Schedule</u>	
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances – General Fund	1	33-34
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	2	35-36
Schedule of Indebtedness	3	37-38
Bond and Note Maturities	4	39-40
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		42-43
Schedule of Findings		44-49

City of Adair

Officials

<u>Name</u>	<u>Title</u> (Before January 2008)	<u>Term Expires</u>
Kelby Harris	Mayor	January 2008
Larry Ludwig	Council Member	January 2008
Craig Wedenmeyer	Council Member	January 2008
Jim Zimmerline	Council Member	January 2008
Danny Clausen	Council Member	January 2010
Tim James	Council Member	January 2010

<u>Name</u>	<u>Title</u> (After January 2008)	<u>Term Expires</u>
Kelby Harris	Mayor	January 2010
Danny Clausen	Council Member	January 2010
Tim James	Council Member	January 2010
Larry Ludwig	Council Member	January 2012
Craig Wedenmeyer	Council Member	January 2012
Jim Zimmerline	Council Member	January 2012

Linda Nichols	City Clerk	Indefinite
Beverly Wild	Attorney	Indefinite

City of Adair

November 3, 2008

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adair, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Adair's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007.

In our opinion, except for the efforts of such adjustments, if any, as might have been determined necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adair as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued...

Independent Auditors' Report
City of Adair

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 3, 2008 on our consideration of the City of Adair's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Adair's basic financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MANAGEMENT ' S DISCUSSION AND ANALYSIS

The City of Adair provides this Management ' s Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities are for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City ' s financial statements, which follow.

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

2008 FINANCIAL HIGHLIGHTS

Receipts of the City ' s governmental activities were approximately \$929,000 in fiscal 2008, which includes, among other items, \$323,000 from property tax, and \$250,000 in general obligation bonds.

Disbursements were approximately \$884,000 in fiscal 2008. Public safety was \$99,939, public works were \$144,904, culture and recreation disbursements were \$89,485, economic development was \$1,150, general government disbursements were \$85,697, debt service was \$144,199 and capital projects were \$319,036.

The City ' s total cash basis net assets increased 3.5% or approximately \$28,282 from June 30, 2007, to June 30, 2008. Of this amount, the assets of the governmental activities increased \$44,830 and the assets of the business type activities increased \$16,548.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City ' s finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City ' s operation in more detail than the government-wide statement by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

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

REPORTING THE CITY ' S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City ' s basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provided a detailed, short-term view of the City ' s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City ' s programs.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$606 thousand to \$651 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	<u>Yr Ended June 30, 2008</u>
Receipts	
Program Receipts:	
Charges for service	\$ 39
Operating grants, contributions and restricted interest	130
Capital grants, contributions and restricted interest	113
General receipts:	
Property tax	323
Local option sales tax	63
Grants and contributions not restricted to specific purposes	6
Unrestricted investment earnings	3
Bond proceeds	350
Other general receipts	<u>2</u>
Total receipts	929
Disbursements:	
Public safety	100
Public works	145
Culture and recreation	89
Community and economic development	1
General government	86
Debt service	144
Capital Projects	<u>319</u>
Total disbursements	<u>884</u>
Increase in cash basis net assets	45
Cash basis net assets beginning of year	<u>606</u>
Cash basis net assets end of year	\$ <u>651</u>

The City's total receipts for governmental activities were approximately \$929,000.

The cost of all governmental activities this year was approximately \$884,000. However as shown in the Statement of Activities and Net Assets on pages 15 and 16, the amount taxpayers ultimately financed for these activities was approximately \$602,000 because some of the cost was paid by other governments and organizations that subsidized certain programs with grants contributions and restricted interest.

Approximately \$39 thousand was paid by those who directly benefited from the programs, and \$243,000 from operating and capital grants. The City paid for the remaining “public benefit” portion of governmental activities with approximately \$323 thousand in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements, and \$250,000 in note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	<u>Year Ended June 30, 2008</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 186
Sewer	139
Garbage	67
General receipts:	
Unrestricted interest on investments	<u>5</u>
Total receipts	397
Disbursements:	
Water	177
Sewer	87
Garbage	63
Debt Service	<u>87</u>
Total Disbursements	<u>414</u>
Decrease in cash balance	(17)
Cash basis net assets beginning of year	<u>181</u>
Cash basis net assets end of year	\$ <u>164</u>

Total business type activities receipts for the fiscal year \$397 thousand. The cash balance decreased by \$17,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Adair completed the year, its governmental funds report a combined fund balance of \$651,171, an increase of more than \$44,000 above last year’s total of \$606,341. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

The General Fund cash balance increased \$45,760 from the prior year to \$462,035.

The Road Use Tax Fund cash balance decreased by \$6,266 to \$(15,209) during the fiscal year.

The Local Option Sales Tax Fund increased by \$63,384 to \$182,379 since there were no expenditures this year.

The Urban Renewal Tax Increment Fund decreased by \$57,060 to \$72,748 during the fiscal year. This was due to payment of debt.

The Capital Projects Funds cash balance increased by \$43,590 to (\$95,544) during the fiscal year. This was due to the timing of some of the expenditures and receipts for same, and note proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$11,295 to \$197,383.

The Sewer Fund cash balance decreased by \$9,346 to \$(76,054).

The Garbage Fund cash balance increased by \$4,093 to \$43,020.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amount of the amendment increased budgeted disbursements \$374,000 to show increased costs for a street project and fuels costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$1,182,000 in bonds and other long-term debt compared to approximately \$1,133,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)			
		<u>June 30</u>	
		<u>2008</u>	<u>2007</u>
General obligation bonds	\$	246	7
Urban renewal tax increment		109	188
Financing revenue bonds			
Revenue notes		<u>827</u>	<u>885</u>
Total	\$	<u>1,182</u>	<u>1,133</u>

Debt increased as a result of issuing general obligation bonds of \$250,000 for street improvements.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and urban renewal debt of \$355,000 is significantly below its constitutional debt limit of \$1,675,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Adair's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities. Property tax and utility rate increases were considered to help defray expenses. The City has added no major new programs. The City continues to try to control spending.

CONTACTING THE CITY 'S FINANCIAL MANAGEMENT

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

City of Adair

Basic Financial Statements

City of Adair
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2008

	Disbursements	Charges for Service	Program Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 99,939	23,504	408
Public works	144,904	-	100,716
Culture and recreation	89,485	6,658	16,645
Community and economic development	1,150	-	-
General government	85,697	8,976	12,449
Debt service	144,199	-	-
Capital projects	319,036	-	-
Total governmental activities	884,410	39,138	130,218
Business type activities:			
Water	201,535	186,345	-
Sewer	149,607	138,793	-
Garbage	63,263	67,108	-
Total business type activities	414,405	392,246	-
Total	\$ 1,298,815	431,384	130,218
General Receipts:			
Property tax levied for:			
General purposes			
Tax increment financing			
Debt service			
Local option sales tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Bond proceeds			
Miscellaneous			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Streets			
Urban renewal purposes			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements

Receipts	Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
-	(76,027)	-	(76,027)
-	(44,188)	-	(44,188)
-	(66,182)	-	(66,182)
-	(1,150)	-	(1,150)
-	(64,272)	-	(64,272)
-	(144,199)	-	(144,199)
112,626	(206,410)	-	(206,410)
<u>112,626</u>	<u>(602,428)</u>	<u>-</u>	<u>(602,428)</u>
-	-	(15,190)	(15,190)
-	-	(10,814)	(10,814)
-	-	3,845	3,845
<u>-</u>	<u>-</u>	<u>(22,159)</u>	<u>(22,159)</u>
<u>112,626</u>	<u>(602,428)</u>	<u>(22,159)</u>	<u>(624,587)</u>
	\$ 271,898	-	271,898
	36,359	-	36,359
	15,239	-	15,239
	62,603	-	62,603
	5,850	-	5,850
	3,725	5,611	9,336
	250,000	-	250,000
	1,584	-	1,584
	<u>647,258</u>	<u>5,611</u>	<u>652,869</u>
	44,830	(16,548)	28,282
	<u>606,341</u>	<u>180,897</u>	<u>787,238</u>
	\$ <u>651,171</u>	<u>164,349</u>	<u>815,520</u>
	\$ 167,170	-	167,170
	72,478	-	72,478
	45,032	-	45,032
	<u>366,491</u>	<u>164,349</u>	<u>530,840</u>
	\$ <u>651,171</u>	<u>164,349</u>	<u>815,520</u>

City of Adair
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2008

	Special Revenue		
General	Road Use Tax	Local Option Sales Tax	
Receipts:			
Property tax	\$ 181,760	-	-
Tax increment financing collections	-	-	-
Other city tax	38,181	-	62,603
Licenses and permits	341	-	-
Use of money and property	25,642	-	781
Intergovernmental	37,306	71,879	-
Charges for service	28,924	-	-
Miscellaneous	15,021	-	-
	327,175	71,879	63,384
Disbursements:			
Operating:			
Public safety	82,277	-	-
Public works	51,481	78,145	-
Culture and recreation	88,213	-	-
Community and economic development	1,150	-	-
General government	71,644	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	294,765	78,145	-
Excess (deficiency) of receipts over (under) disbursements	32,410	(6,266)	63,384
Other financing sources (uses):			
Bond proceeds	-	-	-
Operating transfers in	13,600	-	-
Operating transfers out	(250)	-	-
Total other financing sources (uses)	13,350	-	-
Net change in cash balances	45,760	(6,266)	63,384
Cash balances beginning of year	416,275	(8,943)	118,995
Cash balances end of year	\$ 462,035	(15,209)	182,379
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	462,035	-	-
Special revenue funds	-	(15,209)	182,379
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 462,035	(15,209)	182,379

See notes to financial statements

Urban Renewal Tax Increment	Capital Projects	Other Nonmajor Governmental Funds	Total
-	-	65,620	247,380
36,359	-	-	36,359
-	-	1,576	102,360
-	-	-	341
-	-	371	26,794
-	112,626	-	221,811
-	-	-	28,924
-	-	250	15,271
<u>36,359</u>	<u>112,626</u>	<u>67,817</u>	<u>679,240</u>
-	-	17,662	99,939
-	-	15,278	144,904
-	-	1,272	89,485
-	-	-	1,150
-	-	14,053	85,697
93,419	-	50,780	144,199
-	319,036	-	319,036
<u>93,419</u>	<u>319,036</u>	<u>99,045</u>	<u>884,410</u>
(57,060)	(206,410)	(31,228)	(205,170)
-	250,000	-	250,000
-	-	250	13,850
-	-	(13,600)	(13,850)
-	<u>250,000</u>	<u>(13,350)</u>	<u>250,000</u>
(57,060)	43,590	(44,578)	44,830
<u>129,538</u>	<u>(139,134)</u>	<u>89,610</u>	<u>606,341</u>
<u>72,478</u>	<u>(95,544)</u>	<u>45,032</u>	<u>651,171</u>
-	-	933	933
-	-	-	462,035
72,478	-	9,517	249,165
-	(95,544)	-	(95,544)
-	-	34,582	34,582
<u>72,478</u>	<u>(95,544)</u>	<u>45,032</u>	<u>651,171</u>

City of Adair
 Statement of Cash Receipts, Disbursements and Changes in Cash Balances
 Proprietary Funds
 As of and for the year ended June 30, 2008

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 186,345	138,793	67,108	392,246
Operating disbursements:				
Business type activities	<u>177,211</u>	<u>86,744</u>	<u>63,263</u>	<u>327,218</u>
Excess of operating receipts over operating disbursements	9,134	52,049	3,845	65,028
Non-operating receipts (disbursements):				
Interest on investments	3,895	1,468	248	5,611
Debt service	<u>(24,324)</u>	<u>(62,863)</u>	<u>-</u>	<u>(87,187)</u>
Total non-operating receipts (disbursements)	<u>(20,429)</u>	<u>(61,395)</u>	<u>248</u>	<u>(81,576)</u>
Net change in cash balances	(11,295)	(9,346)	4,093	(16,548)
Cash balances beginning of year	<u>208,678</u>	<u>(66,708)</u>	<u>38,927</u>	<u>180,897</u>
Cash balances end of year	<u>\$ 197,383</u>	<u>(76,054)</u>	<u>43,020</u>	<u>164,349</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 197,383</u>	<u>(76,054)</u>	<u>43,020</u>	<u>164,349</u>

See notes to financial statements

City of Adair
Notes to Financial Statements
June 30, 2008

NOTE (1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

City of Adair
Notes to Financial Statements
June 30, 2008

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for receipts from tax authorized by referendum to be used for street improvements.

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

City of Adair
Notes to Financial Statements
June 30, 2008

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.

City of Adair
Notes to Financial Statements
June 30, 2008

NOTE (1) Summary of Significant Accounting Policies - Continued

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2006, to compute the amounts which became liens on property on July 1, 2007. These taxes were due and payable in two installments on September 30, 2007 and March 31, 2008, at the Adair and Guthrie County Treasurer's Offices. These taxes are recognized as income to the City when they are received from the county.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's cash, which consists of cash in bank and certificates of deposits, totaled \$815,520 at June 30, 2008.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3, as amended by Statement No. 40.

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

City of Adair
Notes to Financial Statements
June 30, 2008

NOTE (3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds and Notes Principal	Urban Renewal Tax Increment (TIF) Financing Revenue Bonds Principal	Revenue Bonds Principal	Total Principal
2009	\$ 38,217	38,080	59,000	135,297
2010	38,569	38,080	60,000	136,649
2011	38,985	33,282	61,000	133,267
2012	31,250	-	63,000	94,250
2013	31,250	-	64,000	95,250
2014-2019	68,000	-	241,000	309,000
2020-2023	-	-	279,000	279,000
	<u>\$ 246,271</u>	<u>109,442</u>	<u>827,000</u>	<u>1,182,713</u>

Year Ending June 30,	General Obligation Bonds and Notes Interest	Urban Renewal Tax Increment (TIF) Financing Revenue Bonds Interest	Revenue Bonds Interest	Total Interest
2009	\$ 10,969	4,746	25,135	40,850
2010	9,180	2,937	23,265	35,382
2011	7,340	1,129	21,365	29,834
2012	5,644	-	19,435	25,079
2013	4,206	-	17,445	21,651
2014-2019	4,100	-	63,990	68,090
2020-2023	-	-	25,560	25,560
	<u>\$ 41,439</u>	<u>8,812</u>	<u>196,195</u>	<u>246,446</u>

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

The City has a general obligation debt limit of approximately \$1,675,000 which was not exceeded during the year ended June 30, 2008.

Urban Renewal Tax Increment Financing Revenue Bonds – The City issued \$300,000 of urban renewal tax increment financing revenue bonds in July 2004 for the purpose of defraying a portion of the costs of a bridge construction project within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City’s TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City’s urban renewal area. The bonds are not a general obligation of the

City of Adair
Notes to Financial Statements
June 30, 2008

NOTE (3) Bonds and Notes Payable - Continued

City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$118,254, payable through June 2012. For the current year, principal and interest paid and total TIF receipts were \$93,419 and \$36,359, respectively.

Revenue Notes – The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$924,000 in sewer revenue notes issued in June 2003. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the notes are expected to require less than 100 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$913,570. For the current year, principal and interest paid and total customer net receipts were \$60,905 and \$52,049, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$180,000 in water revenue notes issued in April 2004. Proceeds from the notes provided financing for the construction of water main extensions. The notes are payable solely from sewer customer net receipts and are payable through 2013. Annual principal and interest payments on the notes are expected to require less than 100 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$109,625. For the current year, principal and interest paid and total customer net receipts were \$24,324 and \$9,134, respectively.

The resolutions providing for the issuance of the revenue notes include the following provision:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity, and the note holders hold a lien on the future earnings of the fund.

The Enterprise Fund, Sewer Account had a deficit balance at June 30, 2008 and therefore, the City is not in compliance with the above resolution.

NOTE (4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered payroll. Certain employees in special risk occupations, and the City, contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2008 was \$10,211, equal to the required contribution for the year.

City of Adair
Notes to Financial Statements
June 30, 2008

NOTE (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2008, primarily relating to the General Fund was \$2,546. This liability has been computed based on rates of pay in effect at June 30, 2008.

NOTE (6) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency	\$ 13,600
Permanent: Cemetery Perpetual Care	General	250
		\$ 13,850

NOTE (7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$20,117 during the year ended June 30, 2008.

NOTE (8) Risk Management

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

NOTE (9) Commitments

Mowing Contract – The City has contracted for mowing services for \$13,440 per year through April 2010.

Sanitation Contract – The City has contracted for solid waste disposal and recycling through June 30, 2012, for approximately \$3,700 a month.

City of Adair
Notes to Financial Statements
June 30, 2008

NOTE (10) Deficit Fund Balance

The Special Revenue Fund, Road Use Tax account had a deficit balance of \$5,209 at June 30, 2008. The Capital Projects Fund had a deficit of \$95,544 at June 30, 2008. The Enterprise Fund, Sewer Account had a deficit balance of \$76,054. The deficits will be eliminated with fund transfers and increase in sewer rental rates.

NOTE (11) Subsequent Event

In July 2008, the City borrowed \$50,100 to purchase property for a fire building.

Required Supplementary Information

City of Adair
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual
	<u> </u>	<u> </u>
Receipts		
Property tax	\$ 247,380	-
Tax increment financing collections	36,359	-
Other city tax	102,360	-
Licenses and permits	341	-
Use of money and property	26,794	5,611
Intergovernmental	221,811	-
Charges for service	28,924	392,246
Miscellaneous	15,271	-
Total receipts	<u>679,240</u>	<u>397,857</u>
Disbursements		
Public safety	99,939	-
Public works	144,904	-
Culture and recreation	89,485	-
Community and economic development	1,150	-
General government	85,697	-
Debt service	144,199	-
Capital projects	319,036	-
Business type activities	-	414,405
Total disbursements	<u>884,410</u>	<u>414,405</u>
Excess (deficiency) of receipts over (under) disbursements	(205,170)	(16,548)
Other financing sources, net	<u>250,000</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	44,830	(16,548)
Balances beginning of year	<u>606,341</u>	<u>180,897</u>
Balances end of year	<u>\$ 651,171</u>	<u>164,349</u>

See accompanying independent auditors' report

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
247,380	251,422	251,422	(4,042)
36,359	38,038	38,038	(1,679)
102,360	75,914	75,914	26,446
341	725	725	(384)
32,405	3,000	3,000	29,405
221,811	86,047	86,047	135,764
421,170	391,400	391,400	29,770
15,271	100	100	15,171
<u>1,077,097</u>	<u>846,646</u>	<u>846,646</u>	<u>230,451</u>
99,939	106,421	109,421	9,482
144,904	184,295	184,295	39,391
89,485	43,423	69,423	(20,062)
1,150	3,600	3,600	2,450
85,697	87,822	89,322	3,625
144,199	53,774	57,774	(86,425)
319,036	-	319,500	464
414,405	384,300	404,300	(10,105)
<u>1,298,815</u>	<u>863,635</u>	<u>1,237,635</u>	<u>(61,180)</u>
(221,718)	(16,989)	(390,989)	169,271
<u>250,000</u>	<u>-</u>	<u>(500)</u>	<u>250,500</u>
28,282	(16,989)	(391,489)	419,771
<u>787,238</u>	<u>633,524</u>	<u>633,524</u>	<u>153,714</u>
<u>815,520</u>	<u>616,535</u>	<u>242,035</u>	<u>573,485</u>

City of Adair
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2008

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

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$374,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the culture and recreation, debt service, and business type activities functions.

Other Supplementary Information

City of Adair
Combining Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
General Fund
As of and for the year ended June 30, 2008

	<u>General</u>	<u>Fire</u>	<u>Library</u>
Receipts:			
Property tax	\$ 181,760	-	-
Other city tax	38,181	-	-
Licenses and permits	341	-	-
Use of money and property	6,614	408	8,936
Intergovernmental	30,646	-	5,065
Charges for services	5,579	23,266	79
Miscellaneous	14,271	-	-
Total receipts	<u>277,392</u>	<u>23,674</u>	<u>14,080</u>
Disbursements:			
Operating:			
Public safety	67,353	14,924	-
Public works	51,481	-	-
Culture and recreation	62,118	-	13,573
Community and economic development	1,150	-	-
General government	71,644	-	-
Total disbursements	<u>253,746</u>	<u>14,924</u>	<u>13,573</u>
Excess (deficiency) of receipts over (under) disbursements	23,646	8,750	507
Other financing sources (uses):			
Operating transfers (in) out	<u>13,350</u>	<u>-</u>	<u>-</u>
Net change in cash balances	36,996	8,750	507
Cash balances beginning of year	<u>113,551</u>	<u>40,620</u>	<u>230,238</u>
Cash balances end of year	<u>\$ 150,547</u>	<u>49,370</u>	<u>230,745</u>

See accompanying independent auditors' report

<u>Community Building</u>	<u>Cemetery</u>	<u>Total</u>
-	-	181,760
-	-	38,181
-	-	341
9,124	560	25,642
-	1,595	37,306
-	-	28,924
-	750	15,021
<u>9,124</u>	<u>2,905</u>	<u>327,175</u>
-	-	82,277
-	-	51,481
9,767	2,755	88,213
-	-	1,150
-	-	71,644
<u>9,767</u>	<u>2,755</u>	<u>294,765</u>
(643)	150	32,410
-	-	13,350
(643)	150	45,760
<u>23,345</u>	<u>8,521</u>	<u>416,275</u>
<u>22,702</u>	<u>8,671</u>	<u>462,035</u>

City of Adair
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2008

	Special Revenue		Debt Service
	Road Use Tax	Emergency	General Obligation
Receipts:			
Property tax	\$ 45,345	5,394	14,881
Other city tax	1,088	130	358
Use of money and property	-	-	-
Miscellaneous	-	-	-
Total receipts	46,433	5,524	15,239
Disbursements:			
Operating:			
Public safety	17,662	-	-
Public works	15,278	-	-
Culture and recreation	1,272	-	-
General government	14,053	-	-
Debt service	-	-	50,780
Total disbursements	48,265	-	50,780
Excess (deficiency) of receipts over (under) disbursements	(1,832)	5,524	(35,541)
Other financing sources (uses):			
Operating transfers in (out)	-	(13,600)	-
Net change in cash balances	(1,832)	(8,076)	(35,541)
Cash balances beginning of year	11,326	8,099	36,474
Cash balances end of year	\$ 9,494	23	933
 Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	933
Unreserved:			
Special revenue funds	9,494	23	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 9,494	23	933

See accompanying independent auditors' report

<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
-	65,620
-	1,576
371	371
<u>250</u>	<u>250</u>
621	67,817
-	17,662
-	15,278
-	1,272
-	14,053
<u>-</u>	<u>50,780</u>
<u>-</u>	<u>99,045</u>
621	(31,228)
<u>250</u>	<u>(13,350)</u>
871	(44,578)
<u>33,711</u>	<u>89,610</u>
<u>34,582</u>	<u>45,032</u>
-	933
-	9,517
<u>34,582</u>	<u>34,582</u>
<u>34,582</u>	<u>45,032</u>

City of Adair
Schedule of Indebtedness
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer improvement	Feb 1, 1998	4.90 %	\$ 130,000
Park restroom	Nov 1, 1999	7.90 %	50,000
Equipment	Jan 24, 2001	5.00 %	58,250
Street improvement	Aug 15, 2007	4.60 %	250,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds			
	Jul 1, 2004	4.75 %	\$ 300,000
Revenue notes:			
Sewer	Jun 30, 2003	3.00 %	\$ 924,000
Water refunding	Apr 5, 2004	3.50 %	180,000
Total			

See accompanying independent auditors' report

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
15,000	-	15,000	-	735	-
16,105	-	16,105	-	1,211	-
28,669	-	6,648	22,021	1,332	-
-	250,000	25,750	224,250	8,895	-
<u>59,774</u>	<u>250,000</u>	<u>63,503</u>	<u>246,271</u>	<u>12,173</u>	<u>-</u>
<u>188,842</u>	<u>-</u>	<u>79,400</u>	<u>109,442</u>	<u>14,019</u>	<u>-</u>
765,000	-	38,000	727,000	22,950	-
120,000	-	20,000	100,000	4,324	-
<u>885,000</u>	<u>-</u>	<u>58,000</u>	<u>827,000</u>	<u>27,274</u>	<u>-</u>

City of Adair
Bond and Note Maturities
June 30, 2008

Year Ending June 30,	General Obligation Bonds				
	Equipment		Street Improvement		
	Issued Jan 24, 2001		Issued Aug 15, 2007		
	Interest Rates	Amount	Interest Rates	Amount	Total
2009	5.00 %	\$ 6,967	4.60 %	\$ 31,250	\$ 38,217
2010	5.00 %	7,319	4.60 %	31,250	38,569
2011	5.00 %	7,735	4.60 %	31,250	38,985
2012	-	-	4.60 %	31,250	31,250
2013	-	-	4.60 %	31,250	31,250
2014	-	-	4.60 %	31,250	31,250
2015	-	-	4.60 %	36,750	36,750
		<u>\$ 22,021</u>		<u>\$ 224,250</u>	<u>\$ 246,271</u>

Year Ending June 30,	Revenue Notes				
	Sewer		Water Refunding		
	Issued Jan 20, 2000		Issued Jan 24, 2001		
	Interest Rates	Amount	Interest Rates	Amount	Total
2009	3.00 %	\$ 39,000	3.50 %	\$ 20,000	\$ 59,000
2010	3.00 %	40,000	3.50 %	20,000	60,000
2011	3.00 %	41,000	3.50 %	20,000	61,000
2012	3.00 %	43,000	3.50 %	20,000	63,000
2013	3.00 %	44,000	3.50 %	20,000	64,000
2014	3.00 %	45,000	-	-	45,000
2015	3.00 %	47,000	-	-	47,000
2016	3.00 %	48,000	-	-	48,000
2017	3.00 %	50,000	-	-	50,000
2018	3.00 %	51,000	-	-	51,000
2019	3.00 %	53,000	-	-	53,000
2020	3.00 %	54,000	-	-	54,000
2021	3.00 %	56,000	-	-	56,000
2022	3.00 %	57,000	-	-	57,000
2023	3.00 %	59,000	-	-	59,000
		<u>\$ 727,000</u>		<u>\$ 100,000</u>	<u>\$ 827,000</u>

See accompanying independent auditors' report

Urban Renewal Tax Increment (TIF) Revenue Bonds		
<u>Issued Jul 1, 2004</u>		
<u>Ending June 30,</u>	<u>Interest Rates</u>	<u>Amount</u>
2009	4.75 %	\$ 38,080
2010	4.75 %	38,080
2011	4.75 %	<u>33,282</u>
		\$ <u><u>109,442</u></u>

City of Adair

November 3, 2008

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit Performed
in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the governmental activities, the business type activities, each major fund of the City of Adair, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 3, 2008. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, as we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007. Except as noted in the Independent Auditors' Report, 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 the City of Adair'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 City of Adair's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Adair'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 a 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 significant deficiencies, that adversely affects the City of Adair's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of

Continued...

City of Adair
Independent Auditors' Report on
Internal Control and Compliance

Adair's financial statements that is more than inconsequential will not be prevented or detected by the City of Adair's internal control. We consider the deficiencies in internal control described in Part I of 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 that a material misstatement of the financial statements will not be prevented or detected by the City of Adair's internal control.

Our consideration of 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 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 all of the above items are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Adair's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

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

City of Adair's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Adair'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 the City of Adair and other parties to whom the City of Adair may report including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

City of Adair
Schedule of Findings
Year ended June 30, 2008

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-08 Segregation of Duties

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

One person has control over depositing, warrant writing, posting and reconciling for the Library, and likewise for the Fire Department.

We found a \$700 bank transfer from the Fire Department savings account to its checking account was posted to the bookkeeper's personal account. If adequate controls had been in place, this transaction may have been discovered and corrected.

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

In addition, the \$700 bank transfer should be corrected with a reimbursement from the bookkeeper.

Response - We will review our procedures and we will make sure the misposted funds are returned to the Fire Department.

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

City of Adair
Schedule of Findings
Year ended June 30, 2008

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

SIGNIFICANT DEFICIENCIES:

I-B-08 Separate Boards

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

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

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

Conclusion – Response accepted.

I-C-08 Reconciliation of Utility Billings, Collections and Delinquencies

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

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

Response – We will implement procedures.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Adair
 Schedule of Findings
 Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

II-A-08 Certified Budget

Comment – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do this.

Conclusion – Response accepted.

II-B-08 Entertainment Expense – We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-08 Business Transactions

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

Name, Title, and Business Connection	Transaction Description	Amount
Jim Zimmerline, Council Member		
Owner of Jim’s Lawn Care	Contract services	\$ 20,117

The transaction with the Council Member does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

City of Adair
Schedule of Findings
Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

II-E-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Council Minutes

Comment - No transactions were found that we believe should have been approved in the Council minutes but were not. Copies of minutes were available, but not all official minutes were properly signed.

Recommendation – All minutes should be signed in accordance with Chapter 380.7 of the Code of Iowa.

Response – We will make certain all minutes are properly signed.

Conclusion – Response accepted.

II-G-08 Deposits and Investments

Comment – A resolution naming official depositories has been approved by the City. However, two depositories used by the City were not included in the depository resolution as required by Chapter 12C of the Code of Iowa.

Recommendation – The City should amend its depository resolution to include all depositories used by the City.

Response – We will amend the depository resolution.

Conclusion – Response accepted.

II-H-08 Revenue Notes

Comment – The Sewer operating account balance had a deficit at June 30, 2008.

Recommendation – The Sewer Bond Resolution requires that rates be sufficiently set to fund the operations of the Sewer Enterprise Fund and service debt requirements. The City should review alternatives to meet this requirement.

Response – We will review alternatives including a possible rate increase.

Conclusion – Response accepted.

City of Adair
Schedule of Findings
Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

II-I-08 Investment Income

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

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

Response – We will consider this.

Conclusion – Response acknowledged

II-J-08 Financial Condition

Comment – The Special Revenue Fund, Road Use Tax Account, the Capital Projects Fund and the Enterprise Fund, Sewer Account, had deficit balances at June 30, 2008.

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

Response – We will do this.

Conclusion – Response accepted.

II-K-08 Excess Balances

Comment – The cash balances in the Special Revenue Fund, Local Option Sales Tax Account at June 30, 2008 was in excess of the disbursements made from the fund during the year.

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

Response – We will review this further.

Conclusion – Response accepted.

II-L-08 Inactive Capital Projects

Comment – The Capital Projects Fund – Bridge Account was inactive.

Recommendation – The City should make the necessary transfers to close the inactive account.

Response – We will do this.

Conclusion – Response accepted.

City of Adair
Schedule of Findings
Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

II-M-08 Disbursements

Comment – The City received from the bank only the front image of electronically retained checks.

Recommendation – The City should request both the front and back images of checks in accordance with Chapter 554D.114(5) of the Code of Iowa.

Response – We have contacted the bank to request this.

Conclusion – Response accepted.

II-N-08 Public Property

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

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

Response – We will consider adopting a policy.

Conclusion – Response acknowledged.

NEWS RELEASE

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

The City's receipts totaled \$1,327,097 for the year ended June 30, 2008. The receipts included \$287,137 in property tax, \$36,359 from tax increment financing collections, \$62,603 in local option sales tax, \$431,384 from charges for service, \$130,218 from operating grants, contributions and restricted interest, \$112,626 from capital grants, contributions and restricted interest, \$250,000 from bond proceeds, \$9,336 from unrestricted investment earnings and \$7,434 from other general receipts.

Disbursements for the year totaled \$1,298,815, and included \$319,036 for capital projects, \$144,904 for public works, and \$144,199 for debt service, and \$414,405 for business type activities.

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

November 3, 2008

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adair, Iowa, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 3, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated April 23, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Adair. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City of Adair's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 25, 2008.

Continued...

City of Adair
Communication with Those Charged with Governance

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Adair are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

There were no significant accounting estimates since the financial statements were prepared on the cash basis of accounting. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or to the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 3, 2008.

Continued...

City of Adair
Communication with Those Charged with Governance

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultation has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to the retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council and management of the City of Adair, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

SCHROER & ASSOCIATES, P.C.

November 3, 2008

To Honorable Mayor and
Members of the City Council
City of Adair
320 Audubon Street
Adair, IA 50002

We have compiled the annual financial report of the City of Adair for the year ended June 30, 2008, included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the State of Iowa information that is the representation of management. We have not audited or reviewed the financial statements referred to above, and accordingly, do not express an opinion or any other form of assurance on them. These financial statements were compiled by us from financial statements for that same period that we previously audited, as indicated in our report dated November 3, 2008.

These financial statements are presented in accordance with the requirements of the State of Iowa, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

November 3, 2008

Linda Nichols
City of Adair
320 Audubon Street
Adair, IA 50002

Dear Linda:

Enclosed are draft copies of the audit for the City of Adair. Please review and let me know if we need to make any changes.

Also, enclosed is a management representation letter needed for our file. Please sign and have the mayor sign and return to me in the envelope provided.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/jb
Enc.

December 3, 2008

Linda Nichols
City of Adair
320 Audubon Street
Adair, IA 50002

Dear Linda:

Enclosed are copies of the City of Adair's Annual Report for publication.

Please sign and forward to the State Auditor in the envelope provided.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/jb
Enc.

December 3, 2008

David Vaudt
Office of State Auditor
PO Box 333
Des Moines, IA 50302-0333

Dear Sir:

We have enclosed for your records the following information regarding the audit of the City of Adair for the year ended June 30, 2008.

- 2 copies of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

December 3, 2008

Linda Nichols
City of Adair
320 Audubon Street
Adair, IA 50002

Dear Linda:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid based on your final amended budget according to the following schedule:

<u>Budgeted Expenditures (In millions of dollars)</u>	<u>Fee Amount</u>
Under 1	\$100.00
At least 1, but less than 3	\$175.00
At least 3, but less than 5	\$250.00
At least 5, but less than 10	\$425.00
At least 10, but less than 25	\$625.00
25 and over	\$850.00

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to Office of Auditor of State, PO Box 333, Des Moines, IA 50302-0333.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh

City of Adair

Hours Worked: 75.75