

**CITY OF ADAIR**  
**INDEPENDENT AUDITORS' REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2012**

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditors' Report		5-6
Management's Discussion and Analysis		7-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18
Notes to Financial Statements		19-27
Other 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 Other Information – Budgetary Reporting		31
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		44-51

**City of Adair**

**Officials**

<u>Name</u>	<u>Title</u> (Before January 2012)	<u>Term Expires</u>
Kelby Harris	Mayor	January 2012
Larry Ludwig	Council Member	January 2012
Craig Wedenmeyer	Council Member	January 2012
Jim Zimmerline	Council Member	January 2012
Patty Bauer	Council Member	January 2014
Pat Kelsey	Council Member	January 2014

<u>Name</u>	<u>Title</u> (After January 2012)	<u>Term Expires</u>
Dennis Weigel	Mayor	January 2014
Don Eggen	Council Member	January 2014
Jim Zimmerline	Council Member	January 2014
Larry Ludwig	Council Member	January 2016
James Snyder	Council Member	January 2016
Craig Wedemeyer	Council Member	January 2016

Michelle King	City Clerk	Indefinite
Beverly Wild	Attorney	Indefinite

**City of Adair**



Diane McGrain, CPA  
Jim Menard, CPA

January 17, 2013

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, 2012, 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.

In our opinion, 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, 2012, 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...

omni business centre  
300 west broadway, suite 41  
council bluffs, iowa 51503  
712•322•8734 / fax 712•322•4699  
www.schroer-cpa.com

Independent Auditors' Report  
City of Adair

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 17, 2013 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 considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Adair's basic financial statements. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Adair's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11 and 29 through 31 are presented for purpose of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Schroer & Associates, P. C.*

---

## 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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2012 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities were approximately \$2,700,000 in fiscal 2012, which includes, among other items, \$363,000 from property tax, \$131,000 in note proceeds, and \$1,884,000 in capital grants.

Disbursements were approximately \$2,036,000 in fiscal 2012. Public safety was \$149,000, public works was \$227,000, culture and recreation disbursements were \$73,000, economic development was \$12,000, general government disbursements were \$122,000, debt service was \$43,000 and capital projects was \$1,368,000.

The City's total cash basis net assets increased 5.54% or \$638,350 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased \$664,145 and the assets of the business type activities decreased \$25,795.

### 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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

## **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, 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.

### 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 \$664,000 to \$1,484,000. 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)		
	Year Ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 22	\$ 17
Operating grants, contributions and restricted interest	108	123
Capital grants, contributions and restricted interest	1,884	592
General receipts:		
Property tax	363	427
Local option sales tax	69	72
Grants and contributions not restricted to specific purposes	8	7
Unrestricted investment earnings	1	1
Note proceeds	131	865
Other general receipts	114	3
Total receipts	<u>2,700</u>	<u>2,107</u>
Disbursements:		
Public safety	149	123
Public works	227	161
Culture and recreation	73	69
Community and economic development	12	8
General government	122	147
Debt service	43	39
Capital projects	1,264	1,443
Transfers	146	0
Total disbursements and transfers	<u>2,036</u>	<u>1,990</u>
Change in cash basis net assets	664	117
Cash basis net assets, beginning of year	<u>820</u>	<u>703</u>
Cash basis net assets, end of year	<u>\$ 1,484</u>	<u>\$ 820</u>

The City's total receipts for governmental activities were approximately \$2,700,000.

The cost of all governmental activities this year was approximately \$1,890,000. However as shown in the Statement of Activities and Net Assets on pages 14 and 15, the amount taxpayers ultimately financed for these activities was approximately \$125,000 because some of the costs were paid by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest.

Approximately \$22,000 of costs were paid by those who directly benefited from the programs, and \$1,992,000 from operating and capital grants. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$363,000 in tax (some of which could only be used for certain programs), \$192,000 in other receipts, such as interest and general entitlements, and \$131,000 in note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2012	2011
<b>Receipts and Transfers:</b>		
Program receipts:		
Charges for service		
Water	\$ 234	\$ 233
Sewer	165	163
Garbage	76	74
General receipts:		
Unrestricted interest on investments	1	2
Miscellaneous	-	15
Transfers	146	0
Total receipts and transfers	<u>622</u>	<u>487</u>
<b>Disbursements:</b>		
Water	218	204
Sewer	366	173
Garbage	64	60
Total disbursements	<u>648</u>	<u>437</u>
Change in cash balance	(26)	50
Cash basis net assets, beginning of year	<u>295</u>	<u>245</u>
Cash basis net assets, end of year	<u>\$ 269</u>	<u>\$ 295</u>

Total business type activities receipts and transfers for the fiscal year were \$622,000. The cash balance decreased by \$26,000.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Adair completed the year, its governmental funds report a combined fund balance of \$1,484,563, an increase of more than \$664,000 above last year's total of \$820,418. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

The General Fund cash balance decreased \$20,696 from the prior year to \$322,250 due to the purchase of a new police patrol car, as well as unexpected additional legal fees.

The Local Option Sales Tax Fund decreased by \$43,789 to \$314,671 due to street repairs and resurfacing projects.

The Capital Projects Funds cash balance increased by \$639,617 to 643,491 during the fiscal year. This was due to the receipt of FEMA funds for a sewer project.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased \$33,873 to \$247,141.

The Sewer Fund cash balance decreased by \$71,894 to (\$43,589) due to sewer main replacements that were not part of the sewer project scope but needed immediate repair.

The Garbage Fund cash balance increased by \$12,226 to \$65,527.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amount of the amendment increased budgeted disbursements by \$2,294,466, due to additional costs for a sewer project funded by FEMA and a state revolving loan funds.

## DEBT ADMINISTRATION

At June 30, 2012, the City had approximately \$1,923,000 in bonds and other long-term debt compared to approximately \$1,929,000 last year, as shown below.

	Outstanding Debt at Year End (Expressed in Thousands)	
	Year Ended June 30,	
	2012	2011
General obligation bonds and notes	\$ 148	\$ 181
Revenue notes	1,717	1,675
Loan agreement	58	73
Total	\$ 1,923	\$ 1,929

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 debt of \$148,000 is significantly below its constitutional debt limit of \$1,886,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Adair's elected and appointed official and citizens considered many factors when setting the fiscal year 2013 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 will continue 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 Michelle King, City Clerk, Audubon Street, City of 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, 2012

	Disbursements	Charges for Service	Program Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 149,508	460	4,014
Public works	226,797	454	90,946
Culture and recreation	72,617	20,362	13,028
Community and economic development	12,041	-	-
General government	121,890	1,235	-
Debt service	43,325	-	-
Capital projects	1,263,544	-	-
Total governmental activities	1,889,722	22,511	107,988
Business type activities:			
Water	217,802	233,563	-
Sewer	365,708	164,715	-
Garbage	64,233	76,396	-
Total business type activities	647,743	474,674	-
Total	\$ 2,537,465	497,185	107,988
General Receipts:			
Property tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Note proceeds			
Miscellaneous			
Sale of assets			
Transfers			
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			
<b>Cash Basis Net Assets</b>			
Restricted:			
Nonexpendable:			
Cemetery perpetual care			
Expendable:			
Streets			
Capital projects			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements

Receipts	Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
Capital Grants, Contributions and Restricted Interest			
-	(145,034)	-	(145,034)
-	(135,397)	-	(135,397)
-	(39,227)	-	(39,227)
-	(12,041)	-	(12,041)
-	(120,655)	-	(120,655)
-	(43,325)	-	(43,325)
1,883,712	620,168	-	620,168
<u>1,883,712</u>	<u>124,489</u>	<u>-</u>	<u>124,489</u>
-	-	15,761	15,761
-	-	(200,993)	(200,993)
-	-	12,163	12,163
-	-	(173,069)	(173,069)
<u>1,883,712</u>	<u>124,489</u>	<u>(173,069)</u>	<u>(48,580)</u>
\$	339,605	-	339,605
	8,306	-	8,306
	15,438	-	15,438
	68,710	-	68,710
	8,008	-	8,008
	1,651	1,155	2,806
	130,909	-	130,909
	108,952	-	108,952
	4,196	-	4,196
	(146,119)	146,119	-
	<u>539,656</u>	<u>147,274</u>	<u>686,930</u>
	664,145	(25,795)	638,350
	<u>820,418</u>	<u>294,874</u>	<u>1,115,292</u>
\$	<u>1,484,563</u>	<u>269,079</u>	<u>1,753,642</u>
\$	28,563	-	28,563
	314,671	-	314,671
	643,491	-	643,491
	175,588	-	175,588
	<u>322,250</u>	<u>269,079</u>	<u>591,329</u>
\$	<u>1,484,563</u>	<u>269,079</u>	<u>1,753,642</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, 2012

	General	Special Revenue Local Option Sales Tax	Capital Projects
<b>Receipts:</b>			
Property tax	\$ 233,378	-	-
Tax increment financing collections	-	-	-
Other city tax	41,768	68,710	-
Licenses and permits	1,595	-	-
Use of money and property	22,221	89	-
Intergovernmental	10,941	-	1,881,040
Charges for service	9,067	-	-
Special assessments	454	-	-
Miscellaneous	113,775	-	2,672
	<u>433,199</u>	<u>68,799</u>	<u>1,883,712</u>
<b>Disbursements:</b>			
<b>Operating:</b>			
Public safety	127,923	-	-
Public works	190,152	-	-
Culture and recreation	72,617	-	-
Community and economic development	12,041	-	-
General government	102,037	-	-
Debt service	-	-	-
Capital projects	-	-	1,263,544
Total disbursements	<u>504,770</u>	<u>-</u>	<u>1,263,544</u>
Excess (deficiency) of receipts over (under) disbursements	(71,571)	68,799	620,168
<b>Other financing sources (uses):</b>			
Sale of general fixed assets	4,196	-	-
Sewer revenue note proceeds	-	-	130,909
Operating transfers in	81,338	-	-
Operating transfers out	(34,659)	(112,588)	(111,460)
Total other financing sources (uses)	<u>50,875</u>	<u>(112,588)</u>	<u>19,449</u>
Net change in cash balances	(20,696)	(43,789)	639,617
Cash balances beginning of year	<u>342,946</u>	<u>358,460</u>	<u>3,874</u>
Cash balances end of year	<u>\$ 322,250</u>	<u>314,671</u>	<u>643,491</u>
<b>Cash Basis Fund Balances</b>			
<b>Nonspendable:</b>			
Cemetery perpetual care	\$ -	-	-
<b>Restricted for:</b>			
Streets	-	314,671	-
Capital projects	-	-	643,491
Other purposes	-	-	-
Unassigned	<u>322,250</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 322,250</u>	<u>314,671</u>	<u>643,491</u>

See notes to financial statements

Other Nonmajor Governmental Funds	Total
71,213	304,591
15,438	15,438
1,552	112,030
-	1,595
17	22,327
90,857	1,982,838
-	9,067
-	454
94	116,541
<u>179,171</u>	<u>2,564,881</u>
21,585	149,508
36,645	226,797
-	72,617
-	12,041
19,853	121,890
43,325	43,325
-	1,263,544
<u>121,408</u>	<u>1,889,722</u>
57,763	675,159
-	4,196
-	130,909
31,250	112,588
-	(258,707)
<u>31,250</u>	<u>(11,014)</u>
89,013	664,145
<u>115,138</u>	<u>820,418</u>
<u>204,151</u>	<u>1,484,563</u>
28,563	28,563
-	314,671
-	643,491
175,588	175,588
-	322,250
<u>204,151</u>	<u>1,484,563</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, 2012

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 230,141	164,715	76,396	471,252
Operating disbursements:				
Business type activities	<u>164,394</u>	<u>119,025</u>	<u>64,233</u>	<u>347,652</u>
Excess of operating receipts over operating disbursements	65,747	45,690	12,163	123,600
Non-operating receipts (disbursements):				
Interest on investments	783	309	63	1,155
Rent	3,422	-	-	3,422
Debt service	(21,738)	(210,598)	-	(232,336)
Construction	<u>(31,670)</u>	<u>(36,085)</u>	<u>-</u>	<u>(67,755)</u>
Total non-operating receipts (disbursements)	<u>(49,203)</u>	<u>(246,374)</u>	<u>63</u>	<u>(295,514)</u>
Excess (deficiency) of receipts over (under) disbursements	16,544	(200,684)	12,226	(171,914)
Operating transfers in	<u>17,329</u>	<u>128,790</u>	<u>-</u>	<u>146,119</u>
Net change in cash balances	33,873	(71,894)	12,226	(25,795)
Cash balances beginning of year	<u>213,268</u>	<u>28,305</u>	<u>53,301</u>	<u>294,874</u>
Cash balances end of year	<u>\$ 247,141</u>	<u>(43,589)</u>	<u>65,527</u>	<u>269,079</u>
 <b>Cash Basis Fund Balances</b>				
Unrestricted	<u>\$ 247,141</u>	<u>(43,589)</u>	<u>65,527</u>	<u>269,079</u>

See notes to financial statements

City of Adair  
Notes to Financial Statements  
June 30, 2012

**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, Guthrie County Landfill Commission and the Adair Community Fire Board.

**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 the following categories/components:

City of Adair  
Notes to Financial Statements  
June 30, 2012

**NOTE (1) Summary of Significant Accounting Policies - Continued**

B. Basis of Presentation - Continued

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable 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 preceding categories. 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 emergency levies 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 Local Option Sales Tax Fund is used to account for receipts from tax authorized by referendum to be used for street improvements.

City of Adair  
Notes to Financial Statements  
June 30, 2012

**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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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.

City of Adair  
Notes to Financial Statements  
June 30, 2012

**NOTE (1) Summary of Significant Accounting Policies - Continued**

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety and community and economic development functions.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2010, to compute the amounts which became liens on property on July 1, 2011. These taxes were due and payable in two installments on September 30, 2011 and March 31, 2012, at the Adair and Guthrie County Treasurer's Offices. These taxes are recognized as income to the City when they are received from the county.

City of Adair  
Notes to Financial Statements  
June 30, 2012

**NOTE (2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 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 \$1,753,642 at June 30, 2012.

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.

**NOTE (3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and notes, revenue notes and loan agreements are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		Loan Agreements		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 33,133	6,368	111,470	48,860	15,644	15,517	160,247	70,745
2014	34,372	4,834	94,000	45,376	16,329	11,859	144,701	62,069
2015	36,069	3,232	98,000	42,556	5,287	8,113	139,356	53,901
2016	27,166	1,552	100,000	39,616	5,636	4,404	132,802	45,572
2017	7,700	677	104,000	36,616	6,005	2,285	117,705	39,578
2018-2022	9,248	352	571,000	134,270	9,512	1,437	589,760	136,059
2023-2027	-	-	410,000	54,350	-	-	410,000	54,350
2028-2030	-	-	135,520	5,822	-	-	135,520	5,822
	\$ 147,688	17,015	1,623,990	407,466	58,413	43,615	1,830,091	468,096

City of Adair  
Notes to Financial Statements  
June 30, 2012

**NOTE (3) Bonds and Notes Payable- Continued**

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 \$1,886,000 which was not exceeded during the year ended June 30, 2012.

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, and \$1,250,000 issued in February 2011. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2029. 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 \$2,153,716. For the current year, principal and interest paid and total customer net receipts were \$106,523 and \$45,690, 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 water customer net receipts and are payable through 2013. Annual principal and interest payments on the notes required less than 35 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$20,194. For the current year, principal and interest paid and total customer net receipts were \$21,738 and \$65,747, 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.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account within the Sewer Enterprise Fund for the purpose of making the sewer revenue note principal and interest payments when due.

The Enterprise Fund, Sewer Account had insufficient net receipts to cover the debt payments. The City did not establish the required sewer revenue note sinking account, therefore the City is not in compliance with the above resolutions.

City of Adair  
Notes to Financial Statements  
June 30, 2012

**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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012 was \$18,892, equal to the required contribution for the year.

**NOTE (5) Other Postemployment Benefits (OPEB)**

Plan description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 4 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$703 for single coverage and \$1,105 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, there were no plan members eligible for benefits.

**NOTE (6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2012, primarily relating to the General Fund was \$7,740. This liability has been computed based on rates of pay in effect at June 30, 2012.

City of Adair  
Notes to Financial Statements  
June 30, 2012

**NOTE (7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 81,338
Debt Service	Special Revenue: Local Option Sales Tax	31,250
Enterprise: Water	General	17,329
Enterprise: Sewer	General	17,330
	Capital Projects	111,460
		<u>128,790</u>
		<u>\$ 258,707</u>

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

**NOTE (8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$30,441 during the year ended June 30, 2012.

**NOTE (9) Risk Management**

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

**NOTE (10) Commitments**

Mowing Contract – The City has contracted for mowing services for \$23,385 per year through April 2013.

Sanitation Contract – The City has contracted for solid waste disposal and recycling through June 30, 2019, for approximately \$3,400 a month.

City of Adair  
Notes to Financial Statements  
June 30, 2012

**NOTE (11) Deficit Balance**

The Sewer Fund had a deficit balance of \$43,590 at June 30, 2012. The City will consider a possible rate increase to eliminate the deficit.

### **Other 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  
 Other Information  
 Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property tax	\$ 304,591	-
Tax increment financing collections	15,438	-
Other city tax	112,030	-
Licenses and permits	1,595	-
Use of money and property	22,327	4,577
Intergovernmental	1,982,838	-
Charges for service	9,067	471,252
Special assessments	454	-
Miscellaneous	116,541	-
Total receipts	<u>2,564,881</u>	<u>475,829</u>
Disbursements		
Public safety	149,508	-
Public works	226,797	-
Culture and recreation	72,617	-
Community and economic development	12,041	-
General government	121,890	-
Debt service	43,325	-
Capital projects	1,263,544	-
Business type activities	-	647,743
Total disbursements	<u>1,889,722</u>	<u>647,743</u>
Excess (deficiency) of receipts over (under) disbursements	675,159	(171,914)
Other financing sources, net	<u>(11,014)</u>	<u>146,119</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	664,145	(25,795)
Balances beginning of year	<u>820,418</u>	<u>294,874</u>
Balances end of year	<u>\$ 1,484,563</u>	<u>269,079</u>

See accompanying independent auditors' report

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
304,591	307,008	307,008	(2,417)
15,438	9,700	10,921	4,517
112,030	91,766	92,421	19,609
1,595	1,150	2,670	(1,075)
26,904	14,400	23,753	3,151
1,982,838	93,100	1,972,000	10,838
480,319	475,925	479,202	1,117
454	-	-	454
116,541	700	114,140	2,401
<u>3,040,710</u>	<u>993,749</u>	<u>3,002,115</u>	<u>38,595</u>
149,508	125,881	148,600	(908)
226,797	136,600	253,500	26,703
72,617	44,566	74,296	1,679
12,041	11,536	11,700	(341)
121,890	119,800	141,275	19,385
43,325	39,125	49,189	5,864
1,263,544	-	1,389,450	125,906
647,743	538,566	1,242,530	594,787
<u>2,537,465</u>	<u>1,016,074</u>	<u>3,310,540</u>	<u>773,075</u>
503,245	(22,325)	(308,425)	811,670
<u>135,105</u>	<u>-</u>	<u>(55,000)</u>	<u>190,105</u>
638,350	(22,325)	(363,425)	1,001,775
<u>1,115,292</u>	<u>1,997,587</u>	<u>895,357</u>	<u>219,935</u>
<u>1,753,642</u>	<u>1,975,262</u>	<u>531,932</u>	<u>1,221,710</u>

City of Adair  
Notes to Other Information – Budgetary Reporting  
June 30, 2012

The budgetary comparison is presented 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 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 \$2,294,466. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety and community and economic development functions.

**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, 2012

	<u>General</u>	<u>Emergency</u>	<u>Library</u>
Receipts:			
Property tax	\$ 226,917	6,461	-
Other city tax	41,626	142	-
Licenses and permits	1,595	-	-
Use of money and property	8,059	-	2,552
Intergovernmental	1,583	-	6,025
Charges for services	9,022	-	45
Special assessments	454	-	-
Miscellaneous	113,066	-	428
Total receipts	<u>402,322</u>	<u>6,603</u>	<u>9,050</u>
Disbursements:			
Operating:			
Public safety	127,923	-	-
Public works	190,152	-	-
Culture and recreation	32,640	-	11,763
Community and economic development	12,041	-	-
General government	102,037	-	-
Total disbursements	<u>464,793</u>	<u>-</u>	<u>11,763</u>
Excess (deficiency) of receipts over (under) disbursements	(62,471)	6,603	(2,713)
Other financing sources (uses):			
Sale of general fixed assets	4,196	-	-
Operating transfers in	81,338	-	-
Operating transfers (out)	(34,659)	-	-
	<u>50,875</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(11,596)	6,603	(2,713)
Cash balances beginning of year	<u>82,398</u>	<u>8,766</u>	<u>219,935</u>
Cash balances end of year	<u>\$ 70,802</u>	<u>15,369</u>	<u>217,222</u>

See accompanying independent auditors' report

<u>Community Building</u>	<u>Cemetery</u>	<u>Total</u>
-	-	233,378
-	-	41,768
-	-	1,595
10,948	662	22,221
-	3,333	10,941
-	-	9,067
-	-	454
-	281	113,775
<u>10,948</u>	<u>4,276</u>	<u>433,199</u>
-	-	127,923
-	-	190,152
13,169	15,045	72,617
-	-	12,041
-	-	102,037
<u>13,169</u>	<u>15,045</u>	<u>504,770</u>
(2,221)	(10,769)	(71,571)
-	-	4,196
-	-	81,338
-	-	(34,659)
-	-	<u>50,875</u>
(2,221)	(10,769)	(20,696)
<u>12,264</u>	<u>19,583</u>	<u>342,946</u>
<u>10,043</u>	<u>8,814</u>	<u>322,250</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, 2012

	Special Revenue		
	Road Use Tax	Employee Benefits	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ -	63,073	-
Tax increment financing	-	-	15,438
Other city tax	-	1,386	-
Use of money and property	-	-	-
Intergovernmental	90,857	-	-
Miscellaneous	-	-	-
Total receipts	<u>90,857</u>	<u>64,459</u>	<u>15,438</u>
Disbursements:			
Operating:			
Public safety	-	21,585	-
Public works	23,176	13,469	-
General government	-	19,853	-
Debt service	-	-	-
Total disbursements	<u>23,176</u>	<u>54,907</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	67,681	9,552	15,438
Other financing sources (uses):			
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	67,681	9,552	15,438
Cash balances beginning of year	<u>46,310</u>	<u>33,910</u>	<u>-</u>
Cash balances end of year	<u>\$ 113,991</u>	<u>43,462</u>	<u>15,438</u>
<b>Cash Basis Fund Balances</b>			
Nonspendable – cemetery perpetual care	\$ -	-	-
Restricted for other purposes	<u>113,991</u>	<u>43,462</u>	<u>15,438</u>
Total cash basis fund balances	<u>\$ 113,991</u>	<u>43,462</u>	<u>15,438</u>

See accompanying independent auditors' report

Debt Service	Permanent Cemetery Perpetual Care	Total
8,140	-	71,213
-	-	15,438
166	-	1,552
-	17	17
-	-	90,857
-	94	94
<u>8,306</u>	<u>111</u>	<u>179,171</u>
-	-	21,585
-	-	36,645
-	-	19,853
43,325	-	43,325
<u>43,325</u>	<u>-</u>	<u>121,408</u>
(35,019)	111	57,763
<u>31,250</u>	<u>-</u>	<u>31,250</u>
(3,769)	111	89,013
<u>6,466</u>	<u>28,452</u>	<u>115,138</u>
<u>2,697</u>	<u>28,563</u>	<u>204,151</u>
-	28,563	28,563
<u>2,697</u>	<u>-</u>	<u>175,588</u>
<u>2,697</u>	<u>28,563</u>	<u>204,151</u>

City of Adair  
Schedule of Indebtedness  
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Street improvement	Aug 15, 2007	4.60 %	\$ 250,000
Storm sewer improvement	Nov 9, 2010	4.50 %	75,000
Total			
Revenue notes:			
Sewer	Jun 13, 2003	3.00 %	\$ 924,000
Water refunding	Apr 5, 2004	5.00 %	180,000
Sewer	Jun 10, 2009	0.00 %	50,000
Sewer	Feb 16, 2011	3.00 %	1,250,000
Total			
Loan agreements:			
Property	Jul 18, 2008	6.50 %	\$ 50,410
Equipment	May 25, 2011	2.50 %	33,000
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>
132,403	-	28,863	103,540	8,220	-
48,348	-	4,200	44,148	2,041	-
<u>180,751</u>	<u>-</u>	<u>33,063</u>	<u>147,688</u>	<u>10,261</u>	<u>-</u>
607,000	-	43,000	564,000	18,210	-
39,470	-	20,000	19,470	1,739	-
7,385	-	7,385	-	-	-
<u>1,021,691</u>	<u>130,909</u>	<u>112,080</u>	<u>1,040,520</u>	<u>29,923</u>	<u>-</u>
<u>1,675,546</u>	<u>130,909</u>	<u>182,465</u>	<u>1,623,990</u>	<u>49,872</u>	<u>-</u>
40,632	-	4,587	36,045	2,364	-
33,000	-	10,632	22,368	866	-
<u>73,632</u>	<u>-</u>	<u>15,219</u>	<u>58,413</u>	<u>3,230</u>	<u>-</u>

City of Adair  
Bond and Note Maturities  
June 30, 2012

Year Ending June 30,	<b>General Obligation Notes</b>				
	Street Improvement		Storm Sewer Improvement		Total
	Issued Aug 15, 2007		Issued Jan 24, 2001		
	Interest Rates	Amount	Interest Rates	Amount	
2013	4.60 %	\$ 26,633	4.50 %	\$ 6,500	\$ 33,133
2014	4.60 %	27,872	4.50 %	6,500	34,372
2015	4.60 %	29,169	4.50 %	6,900	36,069
2016	4.60 %	19,866	4.50 %	7,300	27,166
2017	-	-	4.50 %	7,700	7,700
2018	-	-	4.50 %	8,100	8,100
2019	-	-	4.50 %	1,148	1,148
		<u>\$ 103,540</u>		<u>\$ 44,148</u>	<u>\$ 147,688</u>

Year Ending June 30,	<b>Revenue Notes</b>					
	Sewer		Water Refunding		Sewer	
	Issued Jun 30, 2003		Issued Apr 5, 2004		Issued Feb 10, 2011	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	3.00 %	\$ 44,000	5.00 %	\$ 19,470	3.00 %	\$ 48,000
2014	3.00 %	45,000	-	-	3.00 %	49,000
2015	3.00 %	47,000	-	-	3.00 %	51,000
2016	3.00 %	48,000	-	-	3.00 %	52,000
2017	3.00 %	50,000	-	-	3.00 %	54,000
2018	3.00 %	51,000	-	-	3.00 %	56,000
2019	3.00 %	53,000	-	-	3.00 %	58,000
2020	3.00 %	54,000	-	-	3.00 %	60,000
2021	3.00 %	56,000	-	-	3.00 %	62,000
2022	3.00 %	57,000	-	-	3.00 %	64,000
2023	3.00 %	59,000	-	-	3.00 %	66,000
2024	-	-	-	-	3.00 %	68,000
2025	-	-	-	-	3.00 %	70,000
2026	-	-	-	-	3.00 %	72,000
2027	-	-	-	-	3.00 %	75,000
2028	-	-	-	-	3.00 %	77,000
2029	-	-	-	-	3.00 %	58,520
		<u>\$ 564,000</u>		<u>\$ 19,470</u>		<u>\$ 1,040,520</u>

See accompanying independent auditors' report

**Loan Agreements**

Property		Equipment		
Issued Jul 18, 2008		Issued May 25, 2011		
Interest Rates	Amount	Interest Rates	Amount	Total
6.50 %	\$ 4,646	2.50 %	\$ 10,998	\$ 15,644
6.50 %	4,959	2.50 %	11,370	16,329
6.50 %	5,287		-	5,287
6.50 %	5,636		-	5,636
6.50 %	6,005		-	6,005
6.50 %	6,404		-	6,404
6.50 %	3,108		-	3,108
	<u>\$ 36,045</u>		<u>\$ 22,368</u>	<u>\$ 58,413</u>

---

<u>Total</u>	
\$	111,470
	94,000
	98,000
	100,000
	104,000
	107,000
	111,000
	114,000
	118,000
	121,000
	125,000
	68,000
	70,000
	72,000
	75,000
	77,000
	58,520
\$	<u>1,623,990</u>

**City of Adair**



Diane McGrain, CPA  
Jim Menard, CPA

January 17, 2013

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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 17, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

The management of city of Adair is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

Continued...

omni business centre  
300 west broadway, suite 41  
council bluffs, iowa 51503  
712•322•8734 / fax 712•322•4699  
www.schroer-cpa.com

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement on the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-12 through I-C-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-D-12 and I-E-12 to be a significant deficiencies.

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, 2012 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. 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.

*Schroer & Associates, P.C.*

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

I-A-12 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 person has control over each of the following areas:

- Receipts – collecting, depositing, journalizing and posting
- Payroll – preparation and processing
- Utilities – preparing billings, collecting, assessing penalties, depositing and posting payments to customer accounts and recording payments in the City's utility system
- Library – depositing, warrant writing, posting and reconciling
- Financial records – depositing, reconciling and financial reporting

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Library should review control procedures to obtain the maximum internal control possible under the circumstances. In addition, City Council members should review financial records and examine supporting documentation for accounting records on a periodic basis. Payroll checks should be reviewed periodically for proper rate of pay.

Response – We will review our procedures.

Conclusion – Response accepted.

I-B-12 Separate Records

Comment – The library board maintains the accounting records pertaining to the operations of the 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.

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

**INTERNAL CONTROL DEFICIENCIES:**

I-C-12 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.

I-D-12 Disbursements

Comment – During our review of City's disbursements the following were identified:

- A few disbursements were not approved by the City Council
- Library invoices for the period July through December could not be located
- Invoices were not filed in an orderly manner other than by month

Recommendation – All City disbursements should be approved by the City Council and cancelled upon payment. All original documentation should be maintained by the City to support disbursements made and should be filed in an orderly manner.

Response – We will do this.

Conclusion – Response accepted.

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

**INTERNAL CONTROL DEFICIENCIES:**

I-E-12 Credit Cards

Comment – The city has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures financial reporting the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – Although we have not established a formal written policy detailing specifics on the use of City credit cards, we have unwritten guidelines. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Adair  
 Schedule of Findings  
 Year ended June 30, 2012

**Part II: Other Findings Related to Statutory Reporting:**

II-A-12 Certified Budget

Comment – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety and community and economic development 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-12 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-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-12 Business Transactions

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Zimmerline, Council Member Owner of Jim’s Lawn Care	Contract services	\$ 23,946
Craig Wedemeyer, Council Member Owner of Craig’s Automotive	Repairs	6,495

The transaction with Council Member Zimmerline 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.

In accordance with Chapter 362.5(3)(K) of the Code of Iowa, the transactions with Council Member Wedemeyer appear to represent a conflict of interest since the total transaction with the individual was more than \$2,500 during the year.

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

Response – We will do this.

Conclusion – Response accepted.

City of Adair  
Schedule of Findings  
Year ended June 30, 2012

**Part II: Other Findings Related to Statutory Reporting:**

II-E-12 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-12 Council Minutes

Comment - We found a few disbursements that we believe should have been approved in the Council minutes but were not.

Although minutes for council proceedings were published, they were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The City should monitor procedures to insure all claims are properly approved and minutes and annual individual salaries are published as required.

Response - We will review our procedures and make the publications as required.

Conclusion - Response accepted.

II-G-12 Deposits and Investments

Comment - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy. However, the City exceeded the maximum authorized amounts in its depository resolution.

Recommendation - The City should amend its depository resolution to increase the maximum amounts authorized for each depository used.

Response - We will do this.

Conclusion - Response accepted.

City of Adair  
Schedule of Findings  
Year ended June 30, 2012

**Part II: Other Findings Related to Statutory Reporting:**

II-H-12 Revenue Notes

Comment – The Sewer Enterprise Fund net receipts for the year ended June 30, 2012, were insufficient to cover debt service. The City has not established a sewer revenue note sinking account as required by the provisions of the sewer revenue not resolution. In addition, the annual outstanding obligations disclosure statement was not filed with the state.

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. The City should establish the sinking account and make the monthly transfers required. The debt disclosure statement should be filed for the report year 2012.

Response – We will review alternatives including a possible rate increase. We will establish the required sinking account. We will file the debt disclosure report.

Conclusion – Response accepted.

II-I-12 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 do this.

Conclusion – Response accepted.

II-J-12 Excess Balances

Comment – The balances in the Special Revenue Funds – Road Use Tax Account, Local Option Sales Tax Account, and the Enterprise Fund – Water Account at June 30, 2012 were in excess of each fund's disbursements during the year.

Recommendation – The City should consider the necessity of maintaining the substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – The excess balance is considered necessary for the payment of future project costs.

Conclusion – Response accepted.

City of Adair  
Schedule of Findings  
Year ended June 30, 2012

**Part II: Other Findings Related to Statutory Reporting:**

II-K-12 Financial Condition

Comment – The Enterprise – Sewer Fund had a deficit balance of \$43,590 at June 30, 2012.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return the fund to a sound financial condition. User fees for sewer should be adjusted to service operations and revenue debt.

Response – We will monitor this fund closely and will consider a rate increase.

Conclusion – Response accepted.

II-L-12 Urban Renewal Tax Increment Financing Debt

Comment – The city incurred TIF debt in 2012 for street repairs and certified the debt to the county for the cost of the repairs. The debt was incurred by the General Fund. However, a formal action was not taken by the City Council to approve the interfund loan.

Recommendation – Any TIF debt incurred internally should be documented as debt before it is certified.

Response – We will make the necessary resolution to document the interfund debt incurred.

Conclusion – Response accepted.

II-M-12 Payroll Error

Comment – We noted the payroll rate for one employee was entered in error for regular pay by \$2 resulting in an overpayment to that employee of \$1,478.

Recommendation – The employee should be informed of the error and should refund the overpayment through an agreed upon monthly garnishment. The City should correct the rate of pay in its system.

Response – We will correct the rate of pay and discuss a garnishment with the employee.

Conclusion – Response accepted.

City of Adair  
Schedule of Findings  
Year ended June 30, 2012

**Part II: Other Findings Related to Statutory Reporting:**

II-N-12 Police Inventory

Comment – We noted that police inventory with an approximately cost value of \$13,500 (fair value not determined) was not returned by two former police employees.

Recommendation – The City should review the matters with the State Auditor.

Response – We have informed the State Auditor of the situation and our attorney has taken action to get the items back.

Conclusion – Response accepted.