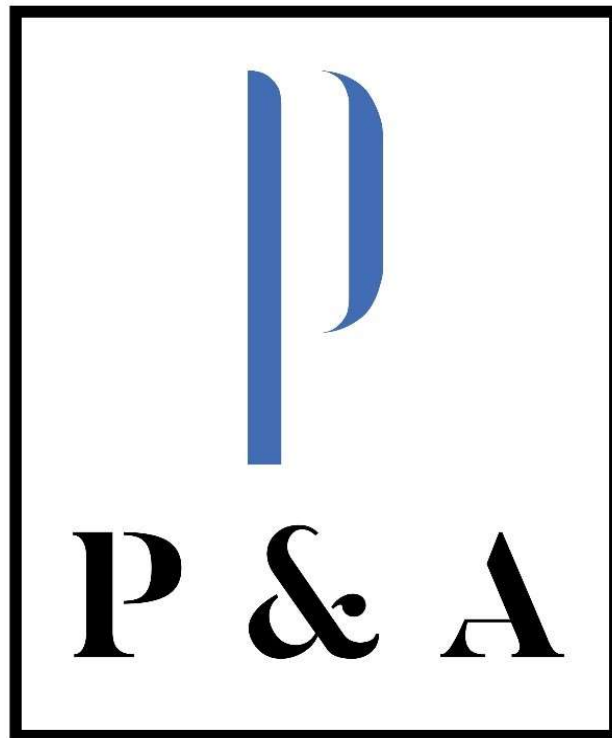


**REPORT OF THE AUDIT OF THE
ADAIR COUNTY
FISCAL COURT**

**For The Year Ended
June 30, 2018**



PATRICK & ASSOCIATES, LLC

**124 Candlewood Drive
Winchester, KY 40391**

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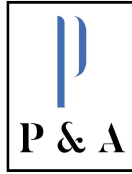
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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

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PATRICK & ASSOCIATES, LLC

124 Candlewood Drive
Winchester, KY 40391

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Gale Cowan, Adair County Judge/Executive
Members of the Adair County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Adair County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Adair County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Gale Cowan, Adair County Judge/Executive
Members of the Adair County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Adair County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Adair County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Adair County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Adair County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Gale Cowan, Adair County Judge/Executive
Members of the Adair County Fiscal Court

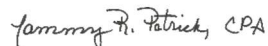
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2020, on our consideration of the Adair County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Adair County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2018-001 The Jailer Failed To Properly Reconcile And Implement Controls Over The Inmate Account That Resulted In \$80,987 In Missing Deposits
- 2018-002 The Jailer Did Not Have Adequate Segregation Of Duties Over Jail Commissary Fund Accounting Functions
- 2018-003 The Jailer Did Not Have Adequate Controls Over Jail Commissary Disbursements And Executed Disbursements With A Debit Card
- 2018-004 The Jailer Did Not Present An Accurate Annual Commissary Report Or Bank Reconciliation To The County Treasurer
- 2018-005 The Jail Inmate Receipts Are Not Deposited Intact On A Daily Basis
- 2018-006 The Jailer Failed To Remit Sales Tax Reports Timely
- 2018-007 The Jailer Failed To Obtain Fiscal Court Approval Prior To Entering Into Contracts And Spent County Funds Without Fiscal Court Approval
- 2018-008 The Fiscal Court Did Not Properly Disclose Debt Balances On The Quarterly Financial Report
- 2018-009 The County Failed To Properly Code And Record Receipts

Respectfully submitted,



Tammy R. Patrick, CPA
Patrick & Associates, LLC

January 24, 2020

ADAIR COUNTY OFFICIALS**For The Year Ended June 30, 2018****Fiscal Court Members:**

Michael Lee Stephens	County Judge/Executive
Harold Burton	Magistrate
Daryl Flatt	Magistrate
Sammy Baker	Magistrate
Perry Reeder	Magistrate
Billy Coffey	Magistrate
Greg Caldwell	Magistrate
Terry Hadley	Magistrate

Other Elected Officials:

Jennifer Hutchison-Corbin	County Attorney
Joey White	Jailer
Lisa Greer	County Clerk
Dennis Loy	Circuit Court Clerk
Harrison Moss	Sheriff
Jeff Feese	Property Valuation Administrator
Todd Akin	Coroner

Appointed Personnel:

Melinda Quinn	County Treasurer
Gale Cowan	Finance Officer

ADAIR COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2018

ADAIR COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2018

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,103,079	\$	\$
In Lieu Tax Payments	53,592		
Excess Fees	257,976		
Licenses and Permits	35,406		
Intergovernmental	396,367	2,259,451	979,010
Charges for Services			34,505
Miscellaneous	231,671	138,990	178,453
Interest	4,295	12,994	478
Total Receipts	<u>2,082,386</u>	<u>2,411,435</u>	<u>1,192,446</u>
DISBURSEMENTS			
General Government	736,257	14,887	4,483
Protection to Persons and Property	93,469		1,337,578
General Health and Sanitation	102,089	21,710	
Social Services	592		
Recreation and Culture	5,823		
Roads		1,806,174	
Airports			
Debt Service	156,041	14,599	30,444
Administration	692,183	141,358	397,714
Total Disbursements	<u>1,786,454</u>	<u>1,998,728</u>	<u>1,770,219</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>295,932</u>	<u>412,707</u>	<u>(577,773)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			
Change in Payroll Revolving Account	(21,722)		
Transfers From Other Funds	220,778		585,845
Transfers To Other Funds	(713,235)	(220,778)	
Total Other Adjustments to Cash (Uses)	<u>(514,179)</u>	<u>(220,778)</u>	<u>585,845</u>
Net Change in Fund Balance	(218,247)	191,929	8,072
Fund Balance - Beginning (Restated)	451,030	685,345	44,507
Fund Balance - Ending	<u>\$ 232,783</u>	<u>\$ 877,274</u>	<u>\$ 52,579</u>
Composition of Fund Balance			
Bank Balance	\$ 190,554	\$ 920,195	\$ 56,098
Add: Deposits In Transit	42,390		
Less: Outstanding Checks	(161)	(42,921)	(3,519)
Fund Balance - Ending	<u>\$ 232,783</u>	<u>\$ 877,274</u>	<u>\$ 52,579</u>

The accompanying notes are an integral part of the financial statement.

ADAIR COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Budgeted Funds					
Local Government Economic Assistance Fund	Forest Fire Fund	Parks and Recreation Fund	ABC Commission Fund	911 Fund	Green River Animal Shelter Fund
	\$ 1,864	\$		\$ 103,441	\$
			3,950		
114,812		29,910		184,058	22,475
342		14,086	21,177	1,168	6,260
935	8	394		186	12
116,089	1,872	44,390	25,127	288,853	28,747
58,270		142	4,024	1,535	285
2,498	2,250			254,225	
34,486					75,439
104					
		32,955			
7,000					
6,698		18,619			
13,150		1,912	439	93,112	16,574
122,206	2,250	53,628	4,463	348,872	92,298
(6,117)	(378)	(9,238)	20,664	(60,019)	(63,551)
37,252					
6,000	401			64,327	63,110
		(448)	(6,000)		
43,252	401	(448)	(6,000)	64,327	63,110
37,135	23	(9,686)	14,664	4,308	(441)
61,100	2	42,008	12,837	12,221	613
\$ 98,235	\$ 25	\$ 32,322	\$ 27,501	\$ 16,529	\$ 172
\$ 98,235	\$ 25	\$ 32,322	\$ 27,501	\$ 16,557	\$ 149
				(28)	170
					(147)
\$ 98,235	\$ 25	\$ 32,322	\$ 27,501	\$ 16,529	\$ 172

The accompanying notes are an integral part of the financial statement.

ADAIR COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

	Unbudgeted Funds		
	Public Properties Corporation Fund	Jail Commissary Fund	Total Funds
RECEIPTS			
Taxes	\$	\$	\$ 1,208,384
In Lieu Tax Payments			53,592
Excess Fees			257,976
Licenses and Permits			39,356
Intergovernmental	840,752		4,826,835
Charges for Services			34,505
Miscellaneous		62,252	654,399
Interest	38	119	19,459
Total Receipts	<u>840,790</u>	<u>62,371</u>	<u>7,094,506</u>
DISBURSEMENTS			
General Government			819,883
Protection to Persons and Property			1,690,020
General Health and Sanitation			233,724
Social Services			696
Recreation and Culture		120,770	159,548
Roads			1,806,174
Airports			7,000
Debt Service	836,550		1,062,951
Administration	4,200		1,360,642
Total Disbursements	<u>840,750</u>	<u>120,770</u>	<u>7,140,638</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>40</u>	<u>(58,399)</u>	<u>(46,132)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			37,252
Change in Payroll Revolving Account			(21,722)
Transfers From Other Funds			940,461
Transfers To Other Funds			(940,461)
Total Other Adjustments to Cash (Uses)	<u></u>	<u></u>	<u>15,530</u>
Net Change in Fund Balance	40	(58,399)	(30,602)
Fund Balance - Beginning (Restated)	4,833	94,420	1,408,916
Fund Balance - Ending	<u>\$ 4,873</u>	<u>\$ 36,021</u>	<u>\$ 1,378,314</u>
Composition of Fund Balance			
Bank Balance	\$ 4,873	\$ 18,190	\$ 1,364,699
Add: Deposits In Transit		19,353	61,913
Less Outstanding Checks		(1,522)	(48,298)
Ending Fund Balance	<u>\$ 4,873</u>	<u>\$ 36,021</u>	<u>\$ 1,378,314</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Adair County includes all budgeted and unbudgeted funds under the control of the Adair County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Forest Fire Fund - The primary purpose of this fund is to account for money collected for forest protection.

Parks and Recreation Fund - The primary purpose of this fund is to account for receipts and disbursements associated with parks and recreation activities.

ABC Commission Fund - The purpose of this fund is to account for activity associated with alcoholic beverage activity. The primary source of receipts for this fund is from alcoholic beverage license fees.

911 Fund - The primary purpose of this fund is to account for dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Green River Animal Shelter Fund - The primary purpose of this fund is to provide support of the animal shelter for the county. The primary source of receipts for this fund are from local support, animal adoptions, and interlocal agreements with other counties.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the debt service of revenue bonds that were issued to fund construction of the justice center. The Department for Local Government does not require the fiscal court to budget or report this fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the public properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Adair County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Adair County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Adair County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2018.

Reason for transfers:	General Fund	Road Fund	ABC Commission Fund	Parks and Recreation Fund	Total Transfers In
General Fund	\$	\$ 220,778	\$	\$	\$ 220,778
Jail Fund	585,845				585,845
Local Government Economic Assistance Fund			6,000		6,000
Forest Fire Fund	401				401
911 Fund	64,327				64,327
Green River Animal Shelter Fund	62,662			448	63,110
Total Transfers Out	<u>\$ 713,235</u>	<u>\$ 220,778</u>	<u>\$ 6,000</u>	<u>\$ 448</u>	<u>\$ 940,461</u>

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Agency Trust Funds

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2018, was \$17,251 with \$2,306 being held on behalf of inmates.

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2007

The Adair County Public Properties Corporation (PPC), an agency and instrumentality of the Adair County Fiscal Court, issued the First Mortgage Revenue Bonds, Series 2007 for the purposes of acquisition, construction, installation, and equipping of the Adair County Courthouse Facility. On December 27, 2007, \$12,470,000 in bonds was issued at various interest rates. Since these bonds were issued at a discount of \$208,564, net proceeds were \$12,261,436. The PPC has entered into an agreement to lease the Adair County Courthouse Facility to the fiscal court for the amount of the bond payments. The fiscal court has a sublease with the Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Adair County Courthouse Facility. On November 4, 2015, the Adair County Public Properties Corporation (PPC) issued \$7,265,000 in Refunding Revenue Bonds (Justice Center Project) Series 2015 that advance refunded the First Mortgage Revenue Bonds, Series 2007 bonds. As of June 30, 2018, the principal balance was \$615,000. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 615,000	\$ 12,300
Totals	<u>\$ 615,000</u>	<u>\$ 12,300</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

B. First Mortgage Refunding Revenue Bonds, Series 2015

On November 4, 2015, the Adair County Public Properties Corporation (PPC), an agency and instrumentality of the Adair County Fiscal Court, issued \$7,265,000 in Refunding Revenue Bonds (Justice Center Project), Series 2015. These bonds mature in varying amounts from \$70,000 to \$900,000 on December 1 of each year from 2018 through 2027. Proceeds of the bonds were used to refund the First Mortgage Revenue Bonds, Series 2007, which was for the purpose of acquisition, construction, installation, and equipping of the Adair County Courthouse Facility. Interest is payable semi-annually on June 1 and December 1 at rates ranging from 2.0% to 3.5% and principal payments are due annually on December 1 of each year. As of June 30, 2018, the principal balance was \$7,265,000. Future debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 70,000	\$ 209,450
2020	710,000	201,650
2021	725,000	183,675
2022	750,000	161,550
2023	775,000	138,675
2024-2028	4,235,000	53,550
Totals	<u>\$ 7,265,000</u>	<u>\$ 948,550</u>

C. Land

In February 2008, Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of land. The principal was \$70,000, at an interest rate of 4.363% for a period of 120 months. Interest and principal payments are due monthly. As of June 30, 2018 this agreement was paid in full.

D. Christian Life Center Land

In May 2011, Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of land to be used for the Christian Life Center. The principal was \$150,000, at a variable interest rate for a period of 120 months. Principal and interest payments are due monthly. The principal outstanding as of June 30, 2018 was \$47,338. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 15,879	\$ 1,826
2020	16,242	1,098
2021	15,217	349
Totals	<u>\$ 47,338</u>	<u>\$ 3,273</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

E. Energy Savings and Hospital, Series 2014A

On March 27, 2014, the Adair County Fiscal Court entered into a \$1,950,000 agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The purpose was to fund an energy savings project in the amount of \$250,000 and refinance the hospital equipment debt in the amount of \$1,700,000. The energy savings portion requires monthly payments of principal and interest until December 2023. The Hospital portion requires monthly and interest payments until December 2028. As of June 30, 2018, the principal balance remaining for the energy savings portion and hospital portion was \$142,500 and \$1,265,000 respectively. Future principal and interest requirements are:

1. Energy Savings Portion

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 25,000	\$ 4,631
2020	25,000	3,819
2021	25,000	3,006
2022	25,000	2,194
2023	27,500	1,381
2024	15,000	488
Totals	<u>\$ 142,500</u>	<u>\$ 15,519</u>

2. Hospital Portion

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 102,500	\$ 46,913
2020	107,500	43,581
2021	110,000	40,087
2022	112,500	36,513
2023	117,500	32,856
2024-2028	642,500	99,300
2029	72,500	3,306
Totals	<u>\$ 1,265,000</u>	<u>\$ 302,556</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

F. Mack Trucks

On October 18, 2016, Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of a dump truck that will be utilized by the road department. The dump truck was purchased for the amount of \$107,994 of which \$100,000 was financed. The principal was \$100,000, at an interest rate of 2.652 percent for a period of 96 months. Interest and principal payments are due monthly. The principal outstanding as of June 30, 2018 was \$80,961. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 11,898	\$ 2,607
2020	12,217	2,192
2021	12,545	1,765
2022	12,882	1,326
2023	13,228	876
2024-2025	<u>18,191</u>	<u>447</u>
Totals	<u>\$ 80,961</u>	<u>\$ 9,213</u>

G. Sheriff Vehicle

On October 17, 2017, Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of a sheriff vehicle. The sheriff vehicle was financed in the amount of \$37,252. The agreement stipulated an interest rate of 3.75 percent for a period of 48 months. Interest and principal payments are due monthly. The principal outstanding as of June 30, 2018 was \$31,434. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2019	\$ 9,022	\$ 1,025
2020	9,366	681
2021	9,723	323
2022	<u>3,323</u>	<u>26</u>
Totals	<u>\$ 31,434</u>	<u>\$ 2,055</u>

H. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 8,470,000	\$	\$ 590,000	\$ 7,880,000	\$ 685,000
Financing Obligations	<u>1,693,555</u>	<u>37,252</u>	<u>163,574</u>	<u>1,567,233</u>	<u>164,298</u>
Total Long-term Debt	<u>\$10,163,555</u>	<u>\$ 37,252</u>	<u>\$ 753,574</u>	<u>\$ 9,447,233</u>	<u>\$ 849,298</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was \$437,165, FY 2017 was \$527,114, and FY 2018 was \$602,861.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 19.18 percent.

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System (Continued)

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute 8 percent of their annual creditable compensation and also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 31.55 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage – Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System (Continued)

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5%. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

D. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

E. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

F. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System (Continued)

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 7. Deferred Compensation

On January 8, 2002, the Adair County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax-sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2018, the Adair County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 9. Community Development Block Grant Forgivable Deferred Loan

On March 19, 2014, the Adair County Fiscal Court entered into a grant agreement with the Kentucky Department for Local Government for a \$500,000 Community Development Block Grant. Under the terms of this grant, the fiscal court loaned Adair County Board of Education \$475,000 of federal funds to be used for constructing the ATC Career Readiness Center. This building was constructed during fiscal year 2015. The loan is a forgivable deferred loan for five years with no interest. The fiscal court will maintain the second position on the building for five years and no other subordination will be permitted on the building. If 51% of the students served by the ATC Career Readiness Center do not meet the low to moderate income requirements of the grant, the Adair County Fiscal Court will be required to repay \$500,000 to the Kentucky Department for Local Government.

Note 10. Conduit Debt

From time to time the Adair County Fiscal Court has issued bonds to provide financial assistance to the local private college for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Adair County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2017, the Educational Development Revenue Bonds (Lindsey Wilson College Project), Series 2011, were outstanding, with a principal amount payable of \$7,470,000.

Note 11. Related Party Transactions

During the year ended June 30, 2018, the fiscal court paid \$3,160 to a company, owned by the county clerk's spouse for dump clean-up and hauling voting machines.

Note 12. Prior Period Adjustment

The parks and recreation fund beginning balance was increased by \$87 due to a voided check.

Note 13. Payroll Revolving Account

The reconciled balance of the payroll revolving fund is no longer included in the general fund balance as of June 30, 2018 for financial reporting purposes.

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,115,000	\$ 1,147,094	\$ 1,103,079	\$ (44,015)
In Lieu Tax Payments	50,000	50,315	53,592	3,277
Excess Fees	218,630	257,976	257,976	
Licenses and Permits	32,400	34,307	35,406	1,099
Intergovernmental	330,500	372,904	396,367	23,463
Miscellaneous	215,000	252,446	231,671	(20,775)
Interest	3,000	3,793	4,295	502
Total Receipts	1,964,530	2,118,835	2,082,386	(36,449)
DISBURSEMENTS				
General Government	762,530	832,368	736,257	96,111
Protection to Persons and Property	93,000	100,181	93,469	6,712
General Health and Sanitation	61,350	112,432	102,089	10,343
Social Services	1,700	1,700	592	1,108
Recreation and Culture	6,500	7,500	5,823	1,677
Debt Service	158,000	163,648	156,041	7,607
Administration	638,995	771,112	692,183	78,929
Total Disbursements	1,722,075	1,988,941	1,786,454	202,487
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	242,455	129,894	295,932	166,038
Other Adjustments to Cash (Uses)				
Change in Payroll Revolving Account			(21,722)	(21,722)
Transfers From Other Funds	202,500	202,500	220,778	18,278
Transfers To Other Funds	(714,955)	(714,955)	(713,235)	1,720
Total Other Adjustments to Cash (Uses)	(512,455)	(512,455)	(514,179)	(1,724)
Net Change in Fund Balance	(270,000)	(382,561)	(218,247)	164,314
Fund Balance Beginning	270,000	386,918	451,030	64,112
Fund Balance - Ending	\$ 0	\$ 4,357	\$ 232,783	\$ 228,426

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,871,579	\$ 2,435,960	\$ 2,259,451	\$ (176,509)
Charges for Services	140,000	140,000		(140,000)
Miscellaneous	5,000	177,204	138,990	(38,214)
Interest	12,500	12,500	12,994	494
Total Receipts	<u>2,029,079</u>	<u>2,765,664</u>	<u>2,411,435</u>	<u>(354,229)</u>
DISBURSEMENTS				
General Government	16,000	17,048	14,887	2,161
General Health and Sanitation	33,750	36,393	21,710	14,683
Roads	1,872,800	2,216,057	1,806,174	409,883
Debt Service	16,000	16,000	14,599	1,401
Administration	238,029	1,005,571	141,358	864,213
Total Disbursements	<u>2,176,579</u>	<u>3,291,069</u>	<u>1,998,728</u>	<u>1,292,341</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(147,500)</u>	<u>(525,405)</u>	<u>412,707</u>	<u>938,112</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(202,500)</u>	<u>(202,500)</u>	<u>(220,778)</u>	<u>(18,278)</u>
Total Other Adjustments to Cash (Uses)	<u>(202,500)</u>	<u>(202,500)</u>	<u>(220,778)</u>	<u>(18,278)</u>
Net Change in Fund Balance	(350,000)	(727,905)	191,929	919,834
Fund Balance Beginning	<u>350,000</u>	<u>727,905</u>	<u>685,345</u>	<u>(42,560)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 877,274</u>	<u>\$ 877,274</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 884,000	\$ 976,545	\$ 979,010	\$ 2,465
Charges for Services	68,000	68,000	34,505	(33,495)
Miscellaneous	100,000	177,313	178,453	1,140
Interest	400	400	478	78
Total Receipts	<u>1,052,400</u>	<u>1,222,258</u>	<u>1,192,446</u>	<u>(29,812)</u>
DISBURSEMENTS				
General Government		4,483	4,483	
Protection to Persons and Property	1,215,050	1,347,415	1,337,578	9,837
Debt Service	30,000	30,444	30,444	
Administration	351,550	428,623	397,714	30,909
Total Disbursements	<u>1,596,600</u>	<u>1,810,965</u>	<u>1,770,219</u>	<u>40,746</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(544,200)</u>	<u>(588,707)</u>	<u>(577,773)</u>	<u>10,934</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>544,200</u>	<u>544,200</u>	<u>585,845</u>	<u>41,645</u>
Total Other Adjustments to Cash (Uses)	<u>544,200</u>	<u>544,200</u>	<u>585,845</u>	<u>41,645</u>
Net Change in Fund Balance		(44,507)	8,072	52,579
Fund Balance Beginning		<u>44,507</u>	<u>44,507</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 52,579</u>	<u>\$ 52,579</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 110,000	\$ 137,563	\$ 114,812	\$ (22,751)
Miscellaneous	100	395	342	(53)
Interest	500	754	935	181
Total Receipts	110,600	138,712	116,089	(22,623)
DISBURSEMENTS				
General Government	26,900	66,223	58,270	7,953
Protection to Persons and Property	6,200	6,200	2,498	3,702
General Health and Sanitation	19,800	35,312	34,486	826
Social Services	1,500	1,500	104	1,396
Roads	65,000	58,156		58,156
Airports	7,000	7,000	7,000	
Debt Service		6,698	6,698	
Administration	24,200	55,975	13,150	42,825
Total Disbursements	150,600	237,064	122,206	114,858
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(40,000)	(98,352)	(6,117)	92,235
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		37,252	37,252	
Transfers From Other Funds			6,000	6,000
Total Other Adjustments to Cash (Uses)		37,252	43,252	6,000
Net Change in Fund Balance	(40,000)	(61,100)	37,135	98,235
Fund Balance Beginning	40,000	61,100	61,100	
Fund Balance - Ending	\$ 0	\$ 0	\$ 98,235	\$ 98,235

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	FOREST FIRE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 2,000	\$ 2,000	\$ 1,864	\$ (136)
Interest	15	15	8	(7)
Total Receipts	2,015	2,015	1,872	(143)
DISBURSEMENTS				
Protection to Persons and Property	2,250	2,250	2,250	
Administration		2		2
Total Disbursements	2,250	2,252	2,250	2
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(235)	(237)	(378)	(141)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	235	235	401	166
Total Other Adjustments to Cash (Uses)	235	235	401	166
Net Change in Fund Balance		(2)	23	25
Fund Balance Beginning		2	2	
Fund Balance - Ending	\$ 0	\$ 0	\$ 25	\$ 25

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

PARKS AND RECREATION FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 25,000	\$ 27,596	\$ 29,910	\$ 2,314
Miscellaneous	5,500	14,156	14,086	(70)
Interest	600	600	394	(206)
Total Receipts	31,100	42,352	44,390	2,038
DISBURSEMENTS				
General Government		142	142	
Recreation and Culture	35,500	40,432	32,955	7,477
Debt Service	19,525	19,525	18,619	906
Administration	14,075	24,174	1,912	22,262
Total Disbursements	69,100	84,273	53,628	30,645
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(38,000)	(41,921)	(9,238)	32,683
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(448)	(448)
Total Other Adjustments to Cash (Uses)			(448)	(448)
Net Change in Fund Balance	(38,000)	(41,921)	(9,686)	32,235
Fund Balance - Beginning (Restated)	38,000	41,921	42,008	87
Fund Balance - Ending	\$ 0	\$ 0	\$ 32,322	\$ 32,322

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

ABC COMMISSION FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Licenses and Permits	\$ 4,000	\$ 4,000	\$ 3,950	\$ (50)
Miscellaneous	10,000	21,148	21,177	29
Total Receipts	14,000	25,148	25,127	(21)
DISBURSEMENTS				
General Government	10,940	10,634	4,024	6,610
Administration	3,060	27,784	439	27,345
Total Disbursements	14,000	38,418	4,463	33,955
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(13,270)	20,664	33,934
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(6,000)	(6,000)
Total Other Adjustments to Cash (Uses)			(6,000)	(6,000)
Net Change in Fund Balance		(13,270)	14,664	27,934
Fund Balance Beginning		12,837	12,837	
Fund Balance - Ending	\$ 0	\$ (433)	\$ 27,501	\$ 27,934

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

911 FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 150,000	\$ 150,000	\$ 103,441	\$ (46,559)
Intergovernmental	155,000	175,021	184,058	9,037
Miscellaneous		1,062	1,168	106
Interest	100	151	186	35
Total Receipts	<u>305,100</u>	<u>326,234</u>	<u>288,853</u>	<u>(37,381)</u>
DISBURSEMENTS				
General Government		1,572	1,535	37
Protection to Persons and Property	297,825	296,454	254,225	42,229
Administration	80,000	117,103	93,112	23,991
Total Disbursements	<u>377,825</u>	<u>415,129</u>	<u>348,872</u>	<u>66,257</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(72,725)</u>	<u>(88,895)</u>	<u>(60,019)</u>	<u>28,876</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>72,725</u>	<u>72,725</u>	<u>64,327</u>	<u>(8,398)</u>
Total Other Adjustments to Cash (Uses)	<u>72,725</u>	<u>72,725</u>	<u>64,327</u>	<u>(8,398)</u>
Net Change in Fund Balance		(16,170)	4,308	20,478
Fund Balance Beginning		<u>12,221</u>	<u>12,221</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (3,949)</u>	<u>\$ 16,529</u>	<u>\$ 20,478</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

GREEN RIVER ANIMAL SHELTER FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 12,000	\$ 20,301	\$ 22,475	\$ 2,174
Miscellaneous	2,300	6,492	6,260	(232)
Interest	50	50	12	(38)
Total Receipts	14,350	26,843	28,747	1,904
DISBURSEMENTS				
General Government		285	285	
General Health and Sanitation	97,380	98,874	75,439	23,435
Administration	14,765	25,897	16,574	9,323
Total Disbursements	112,145	125,056	92,298	32,758
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(97,795)	(98,213)	(63,551)	34,662
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	97,795	97,795	63,110	(34,685)
Total Other Adjustments to Cash (Uses)	97,795	97,795	63,110	(34,685)
Net Change in Fund Balance		(418)	(441)	(23)
Fund Balance Beginning		443	613	170
Fund Balance - Ending	\$ 0	\$ 25	\$ 172	\$ 147

ADAIR COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

ADAIR COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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ADAIR COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,068,845	\$	\$	\$ 2,068,845
Buildings and Building Improvements	16,934,336			16,934,336
Vehicles and Equipment	2,037,234	212,920		2,250,154
Other Equipment	430,729			430,729
Infrastructure	14,584,364	1,019,577		15,603,941
 Total Capital Assets	 \$ 36,055,508	 \$ 1,232,497	 \$	 \$37,288,005

ADAIR COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2018

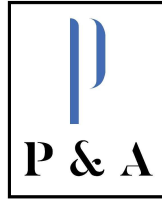
Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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PATRICK & ASSOCIATES, LLC

124 Candlewood Drive
Winchester, KY 40391

The Honorable Gale Cowan, Adair County Judge/Executive
Members of the Adair County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Adair County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Adair County Fiscal Court's financial statement and have issued our report thereon dated January 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Adair County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Adair County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Adair County Fiscal Court's internal control.

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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* 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 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 that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, and 2018-003 to be material weaknesses.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

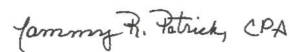
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Adair County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-004, 2018-005, 2018-006, 2018-007, 2018-008, and 2018-009.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Tammy R. Patrick, CPA
Patrick & Associates, LLC

January 24, 2020

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended June 30, 2018

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2018

INTERNAL CONTROL – MATERIAL WEAKNESS:

2018-001 The Jailer Failed To Properly Reconcile And Implement Controls Over The Inmate Account That Resulted In \$80,987 In Missing Deposits

This is a repeat finding and was included in the prior year report as finding 2017-005. The Jailer failed to implement controls over the inmate account, activity of the account, and bank reconciliations that resulted in \$80,987 in missing deposits during the year. This account is an agency trust account used to maintain funds deposited by or on behalf of inmates (see Note 4. to the financial statements). After funds are deposited, inmates' balances within the account are reduced for jail costs and fees as well as inmate purchases from the jail commissary. At the time of an inmate's release, if the inmate owes no additional amounts, the amount remaining in the inmate's account is refunded. The following deficiencies were noted:

- Inadequate design of controls and segregation of duties over the removal, deposit and recording of cash, from kiosk machines existed.
- Inmate Account bank statements were not reviewed by a person independent of the accounting function.
- Inmate Account bank reconciliations were not performed timely or reviewed by a person independent of the accounting function. After review by the auditor, it was noted that numerous deposits in transit were being carried on the bank reconciliation for months.
- Daily checkout sheets were not prepared.
- Deposits were not made on a daily basis.
- No evidence that disbursements from the inmate account were reviewed by a person independent of the accounting function.
- Debit cards are issued to inmates upon release for any remaining account balance by jail employees without any controls or oversight being present.
- No documentation is maintained by the jail that provides support upon release that the inmates did in fact receive the monies due to them.

The jailer failed to properly implement internal controls over kiosk machines, deposits, and accounting functions of the inmate account and commissary account.

Lack of internal controls allowed for the misappropriation of assets, errors, and inaccurate financial reporting. This resulted in \$80,897 of missing inmate account deposits during fiscal year 2018.

Adequate segregation of duties is essential over receipts, disbursements, and bank reconciliations. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires Jailers to maintain monthly cash reconciliations, daily checkout sheets, disbursement ledgers, etc. The Department for Local Government requirements assists Jailers in ensuring that records are complete and accurate.

The following procedures should be implemented to strengthen controls over the inmate account:

- Two people should perform withdraws from kiosk machines and prepare daily checkout sheets that includes the makeup of the funds removed, signature of the people performing the removal, and total removed.
- Receipts should be deposited daily or at very least the same day that funds are removed from the kiosk machines.

**ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2018
(Continued)**

INTERNAL CONTROL – MATERIAL WEAKNESS: (Continued)

2018-001 The Jailer Failed To Properly Reconcile And Implement Controls Over The Inmate Account That Resulted In \$80,987 In Missing Deposits (Continued)

- A deposit ticket should be prepared based upon the daily checkout sheet and the counted money. The deposit ticket should then be reviewed by an independent person to ensure the amount on the deposit slip agrees to the daily checkout sheet and the money being deposited.
- After the deposit has been made, a person other than the one taking the deposit to the bank should agree the deposit receipt to the daily checkout sheet. This deposit receipt should be attached to the daily checkout sheet after review.
- At minimum, on a monthly basis, a person independent of the accounting function should review deposit receipts and compare that to the accounting system to ensure accuracy.
- Bank reconciliations should be performed monthly and reviewed by a person independent of the accounting process. The bank reconciliations should include all outstanding checks, deposits-in-transit, receivables, and liabilities. The inmate account is considered a trust account and should reconcile to zero each month.
- All disbursements should be reviewed by a person independent of the accounting function. The jailer should implement procedures that require the inmates to sign a receipt documenting the return of their fund balance held upon release.
- The person that issues the debit card should sign the receipt generated by the computer in addition to the inmate that is receiving the debit card upon their release.

We recommend the jailer implement procedures to strengthen controls over the inmate account and associated functions.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: In response for this finding relates solely to accounts handled at the Adair Co. Regional Jail. Nothing related to this account is handled in the Judge's Office. Jailer should ensure that procedures are put into place immediately to correct this finding and follow recommendations by the auditor and follow procedures required by DLG's County Budget Preparation and State Local Finance Officer Policy Manual.

County Jailer's Response: (1.) The Jailer has put in practice that there will always be two employee's to do withdraws. The Jailer added a couple more employee's to be able to do withdraws from kiosk machines and prepare daily check out sheets. (2)The Jailer has changed the practice to assure that deposits will be the same day that funds are removed from kiosk. (3.) Not having enough staff the Jailer added two more independent persons to ensure the deposit slip agrees to the daily checkout sheet. (4.) I have appointed two more employee's to check deposit receipts to match the daily checkout sheets. (5.) I will comply with making daily deposits. (6.) I will sign and comply with reconciling monthly. (7.) As of February 1st, 2020 we will not be using debit cards on the release of an inmate. We will write checks if they have the funds. (8.) I will comply by having the inmates sign a receipt of the funds balance.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2018
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESS: (Continued)

2018-002 The Jailer Did Not Have Adequate Segregation Of Duties Over Jail Commissary Fund Accounting Functions

The jail commissary fund is a fund that allows the jailer to sell snacks, sodas, and other items to inmates for profit to be used for the benefit and to enhance the well-being of the inmates. A lack of segregation of duties existed over the jail commissary fund in the areas of receipts, disbursements, and bank reconciliations. The jail commissary bookkeeper recorded receipts, prepared deposits, prepared the monthly receipt ledger, prepared checks for disbursements, and performed the monthly bank reconciliation without any documented oversight.

The lack of segregation of duties existed due to the inadequate design of controls over the jail commissary fund accounting functions and insufficient oversight by management.

Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties is essential over receipts, disbursements, and bank reconciliations and would have prevented the same person from having a significant role in these incompatible functions.

The following are examples of other controls the Jailer could implement:

- Bank statements should be reviewed by a person independent from the accounting function.
- Deposits should be agreed to source documents by a person independent of the accounting function.
- Supporting documentation for disbursements and invoices should be reviewed by the Jailer prior to payment.
- The Jailer, or his designee, could complete bank reconciliations or review the bookkeeper's reconciliation for accuracy.

We recommend the Jailer separate the duties for preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee(s) responsible for these duties. Any compensating controls performed should be documented by the reviewer's initials and date on applicable documentation.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: In response for this finding relates solely to accounts handled at the Adair Co. Regional Jail. Nothing related to this account is handled in the Judge's Office. Jailer should follow recommendations from the auditor on this finding.

County Jailer's Response: The Jailer will be approving bank statements, deposits, and bank reconciliations for accuracy.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2018
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESS: (Continued)

2018-003 The Jailer Did Not Have Adequate Controls Over The Jail Commissary Disbursements And Executed Disbursements With A Debit Card

During our testing of Jail Commissary disbursements for the year ending June 30, 2018, we noted:

- One (1) instance where the Jail paid sales taxes on a purchase totaling \$3 in sales taxes paid.
- Four (4) instances where items purchased were paid with a debit card during the year.
- One (1) instance where the invoice was missing to support the disbursement.

The Jailer's lack of oversight and understanding of requirements related to jail commissary fund disbursements allowed the situations noted to occur.

Failure to provide proper oversight may lead to unnecessary spending of funds and violations of related statutes and requirements.

The use of a debit card allows for a breakdown in control over disbursements and is an unacceptable form of payment. The user of the debit card has the unmonitored opportunity to spend jail commissary funds without review and prior approval which could allow misuse of jail commissary funds. The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*. According to guidelines in the Department for Local Government manual, disbursements are to be made by check only. In addition, the Jail Commissary is a part of a governmental entity that is exempt from paying sales tax.

We recommend that the Jailer review all expenditures prior to payment being made and ensure that sales tax is not being paid. In addition, we recommend the Jailer ensure that disbursements are made by check only in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: In response for this finding relates solely to accounts handled at the Adair Co. Regional Jail. Nothing related to this account is handled in the Judge's Office. Jailer should follow recommendations from the auditor on this finding.

County Jailer's Response: I will comply with recommendations by reviewing expenditures prior to payments. We have not used the debit card after the auditor advised not to use.

STATE LAWS AND REGULATIONS:

2018-004 The Jailer Did Not Present An Accurate Annual Commissary Report Or Bank Reconciliation To The County Treasurer

The jailer failed to submit an Annual Jail Commissary Report as prescribed by the State Local Finance Officer to the county treasurer. Also, the jailer failed to properly account for a deposit in transit on the bank reconciliation for the year ended June 30, 2018.

Due to lack of oversight by the jailer, the issues noted above occurred.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2018
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2018-004 The Jailer Did Not Present An Accurate Annual Commissary Report Or Bank Reconciliation To The County Treasurer (Continued)

Failure to provide adequate oversight over reporting functions resulted in misstated financial statements for the jail commissary fund.

Pursuant to KRS 68.210, the State Local Finance Officer has prescribed minimum accounting and reporting standards which are to be used by county jailers for jail commissary funds maintained pursuant to KRS 441.135. These standards stipulated by the State Local Finance Officer, requires that Commissary Reports include a year to date summary section that will provide a cash balance at any time during the fiscal year. Information for this section is obtained from totaled categories from the receipt and disbursement journals. A monthly cash balance shall be maintained. The reconciliation section of this report reconciles the bank balance to the cash balance.

We recommend the jailer prepare and submit to the county treasurer in a timely manner an accurate annual Jail Commissary Report as prescribed by the State Local Finance Officer.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Commissary account is handled solely at the Adair County Regional Jail. Jailer should present an annual Commissary report to the County Treasurer within 30 days following the end of the fiscal year.

County Jailer's Response: I will comply with recommendation and give treasurer the annual Jail Report in a timely and accurate manner.

2018-005 The Jail Inmate Receipts Are Not Deposited Intact On A Daily Basis

This is a repeat finding and was included in the prior year report as finding 2017-014. The jailer does not deposit jail inmate account receipts intact on a daily basis. In addition, supporting receipts issued to inmates are not attached to a daily checkout sheet. The auditor noted numerous occasions where deposits were not made the same day as being removed from kiosk machines. It was found that kiosk machine withdrawals dated October 6, 2017, December 8, 2017, April 9, 2018, April 26, 2018, May 30, 2018, and June 22, 2018, totaling \$80,987 were not deposited as of June 30, 2018.

The jailer failed to implement the necessary procedures to ensure that deposits were made intact and timely.

When jail inmate receipts are not deposited timely, there is an increase in the risk of misappropriation of cash. The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. Additionally, when deposits are not made timely, the risk that the bank account can be overdrawn is increased.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual require that deposits be made daily.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2018
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2018-005 The Jail Inmate Receipts Are Not Deposited Intact On A Daily Basis (Continued)

We recommend the jailer to deposit inmate receipts daily.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Jail inmate money and accounts are handled solely at the Adair Co. Regional Jail. Jailer and/or staff should make deposits daily as recommended by DLG and the State Local Finance Officer.

County Jailer's Response: Refer back to comment 2018-001.

2018-006 The Jailer Failed To Remit Sales Tax Reports Timely

This is a repeat finding and was included in the prior year report as finding 2017-010. The Jailer failed to ensure that sales tax reports are calculated correctly and filed timely. The report for month ending December 31, 2017 was paid late that resulted in penalties and interest totaling \$44.92. All the remaining months of sales tax returns were improperly calculated that resulted in overpayments totaling \$305.

There was a lack of internal controls and oversight over the preparation of the sales tax report related calculations.

Failure to timely remit and calculate sales taxes resulted in overpayments in addition to the penalties and interest incurred.

KRS 139.540 and KRS 139.550 require sales tax to be reported and paid to the Kentucky Department of Revenue monthly on or before the twentieth day of the next month. However, KRS 139.590 permits the Kentucky Department of Revenue to require returns and tax payments for other periods. The Jailer is required to submit sales tax returns and pay sales taxes quarterly, therefore, reports and taxes are due on or before the twentieth day of the month following the end of the quarter.

We recommend the Jailer avoid paying penalties and interest by submitting sales tax reports in a timely manner. Additionally, the Jailer should ensure that sales tax reports being submitted are accurate. Finally, the fiscal court should reimburse the Jail Commissary Fund for all penalties and interest paid by the Jail Commissary Fund.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Jailer and/or staff should remit sales tax reports on time to omit paying penalties and interest.

County Jailer's Response: We are doing sales tax monthly to stay current.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2018
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2018-007 The Jailer Failed To Obtain Fiscal Court Approval Prior To Entering Into Contracts And Spent County Funds Without Fiscal Court Approval

This is a repeat finding and was included in the prior year report as finding 2017-011. The Jailer entered into two contracts without obtaining fiscal court's approval. On March 5, 2017, the Jailer entered into a 48 month agreement with a telecommunications vendor to provide inmate telephone services. On May 9, 2017 the Jailer entered into a contract with another vendor to provide jail commissary services. The fiscal court subsequently approved these contracts on January 26, 2018.

The agreement for inmate telephone services included a signing bonus commission in the form of a \$40,000 tech grant that is maintained by the vendor. The vendor allows the Jailer, without obtaining Fiscal Court's approval, to order goods and services. The costs of items ordered are then paid by the vendor and deducted from the grant balance. Terms of the agreement stipulate the tech grant is to be used over the term of the agreement and will be prorated over the forty-eight month period. If the agreement is terminated early, the prorated amount will be due back to the vendor within fifteen days of termination notification. During the fiscal year ended June 30, 2018, the Jailer spent \$20,639 for goods or services provided to the jail. The Jailer has spent the full amount of the \$40,000 allotment as of September 6, 2018 with a total of \$33,555 of the grant being spent without fiscal court approval. The remaining balance of \$6,445 was properly approved and deposited into the Jail fund on September 6, 2018.

This situation occurred due to lack of oversight and understanding of the applicable Kentucky Revised Statutes.

Failure to obtain fiscal court approval prior to entering into contracts and spending county funds without approval may result in unlawful transactions and misappropriation of assets.

Although the Jailer can sign contracts, the Jailer may only do so after obtaining the approval of the fiscal court. Telephone commissions, including any bonuses, are considered to be receipts of the fiscal court and as such should be budgeted and deposited to the fiscal court's Jail Fund. These funds should be expended only after obtaining fiscal court's approval. KRS 68.020(1) states "the county treasurer shall receive and receipt for all money due to the county". KRS 441.225 states "Except for capital improvements, utilities and building insurance and except as provided in subsection (2) of this section, the jailer shall have authority to authorize expenditures from the jail budget. Such expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county. Payment for purchases for the jail shall be subject to fiscal court approval prior to payment. The fiscal court shall not withhold approval of payment for jail expenditures which are within the jail budget and not unlawful."

After obtaining fiscal court's approval, we recommend items ordered by the Jailer and charged to the tech grant be paid from the fiscal court's Jail Fund. The county treasurer should then submit a reimbursement request to the vendor and deposit the receipts to the fiscal court's Jail Fund. We further recommend the Jailer refrain from entering into contracts without first obtaining fiscal court's approval.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All Jail contracts and agreement should be presented to the Fiscal Court for approval before being signed or any funds spent.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2018
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2018-007 The Jailer Failed To Obtain Fiscal Court Approval Prior To Entering Into Contracts And Spent County Funds Without Fiscal Court Approval (Continued)

County Jailer's Response: The Jailer was unaware at the time but it was corrected in 2019. Contracts and tech grants go through the Fiscal Court.

2018-008 The Fiscal Court Did Not Properly Disclose Debt Balances On The Quarterly Financial Report

This is a repeat finding and was included in the prior year report as finding 2017-009. The fiscal court did not report the correct principal and interest remaining balances on the Quarterly Financial Report. The fiscal court understated the principal by \$25,000 and overstated the interest balance by \$828,319.

There was a lack of oversight that resulted in the improper amounts being reported.

Inadequate disclosure of debt could affect management decisions as it relates to debt service.

The Kentucky Department for Local Government's *Budget and Policy Manual* requires that all debt be disclosed on the Quarterly Reports.

We recommend that all debt be properly disclosed on the Quarterly Financial Report.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This is the result of the County Treasurer going by the wrong amortization schedule on the 2007 bond and going by invoice's not amortization schedule on loan's causing posting payments a month in advance. The County Treasurer has since received the correct amortization schedule from the 2007 bond and posted payments by the amortization schedule on loans.

2018-009 The County Failed To Properly Code And Record Receipts

This is a repeat finding and was included in the prior year report as finding 2017-015. During revenue testing, we noted numerous instances where receipts were posted to incorrect receipt account codes.

Due to lack of oversight and understanding this situation occurred.

Failure to comply with this policy could produce a skewed analysis of county receipts and may overstate the receipts in one fund while understating the receipts in the other.

The Kentucky Department for Local Government's *Budget and Policy Manual* has statutory receipt account codes to be used for recording receipts to the receipt ledgers. In addition, posting to appropriate account codes may assist the county during budgeting processes and normal operating procedures.

We recommend that the County ensure receipts are posted and accounted for properly.

Views of Responsible Official and Planned Corrective Action:

**ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2018
(Continued)**

STATE LAWS AND REGULATIONS: (Continued)

2018-009 The County Failed To Properly Code And Record Receipts (Continued)

County Judge/Executive's Response: Part of this finding is the result of direct deposits being made into wrong funds. The Treasurer asked Fiscal Court permission to call the bank and have funds transferred immediately if deposited to incorrect funds. The County Treasurer is fixing receipt codes in budget to be able to post to correct codes.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

ADAIR COUNTY FISCAL COURT


For The Year Ended June 30, 2018

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ADAIR COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2018

The Adair County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer