

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

**For The Fiscal Year Ended
June 30, 2014**



PEERCY AND GRAY, PSC

Certified Public Accountants

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ADAIR COUNTY FISCAL COURT

June 30, 2014

Peercy & Gray, PSC has completed the audit of the Adair County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Adair County, Kentucky.

Financial Condition:

The Adair County Fiscal Court had total receipts of \$7,246,790, total disbursements of \$9,504,413 in fiscal year 2014. This resulted in a total ending fund balance of \$743,119, which is a decrease of \$157,623 from the prior year.

Report Comments:

- 2014-001 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements
- 2014-002 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With The Department For Local Government Requirements, For Financial Statement Note Disclosure
- 2014-003 The Treasurer Should Maintain Proper And Accurate Accounting Records For The Public Properties Corporation
- 2014-004 The Treasurer Should Have Included The Senior Citizens Fund In The Quarterly Reports
- 2014-005 The Jailer Should Strengthen Internal Controls Over Inmate Bank Reconciliations
- 2014-006 The Fiscal Court Should Properly Reconcile The Payroll Revolving Account
- 2014-007 All Cash Transfers Should Be Properly Approved And Recorded
- 2014-008 The Treasurer Should Record All Budget Amendments That Are Approved By The Fiscal Court And The Department Of Local Government
- 2014-009 The Fiscal Court Should Properly Account For Encumbrances
- 2014-010 The County Should Adhere To The Publishing Requirement of KRS 424.220 In Regards To The Annual Treasurer's Settlement

Deposits:

The fiscal court deposits were insured and collateralized by bank securities on June 30, 2014. However, on August 31, 2013, the County was underpledged by \$503,737.

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To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Ann Melton, Former Adair County Judge/Executive

Honorable Michael Lee Stephens, 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 Adair County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

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 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.

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

As described more fully in Note 1, the financial statement is prepared by Adair County, Kentucky 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 Adair County, Kentucky as of June 30, 2014, 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 Adair County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Adair County, Kentucky. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule have 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 basic financial statement.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2015 on our consideration of Adair County, Kentucky'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 and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements
- 2014-002 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With The Department For Local Government Requirements, For Financial Statement Note Disclosure
- 2014-003 The Treasurer Should Maintain Proper And Accurate Accounting Records For The Public Properties Corporation
- 2014-004 The Treasurer Should Have Included The Senior Citizens Fund In The Quarterly Reports
- 2014-005 The Jailer Should Strengthen Internal Controls Over Inmate Bank Reconciliations
- 2014-006 The Fiscal Court Should Properly Reconcile The Payroll Revolving Account
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- 2014-008 The Treasurer Should Record All Budget Amendments That Are Approved By The Fiscal Court And The Department Of Local Government
- 2014-009 The Fiscal Court Should Properly Account For Encumbrances
- 2014-010 The County Should Adhere To The Publishing Requirement of KRS 424.220 In Regards To The Annual Treasurer's Settlement

Respectfully submitted,



Percy & Gray, PSC

Certified Public Accountants

November 6, 2015

ADAIR COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Michael Lee Stephens (beginning January 1, 2015)	County Judge/Executive
Ann Melton (through December 31, 2014)	Former County Judge/Executive
Harold Burton	Magistrate
Daryl Flatt	Magistrate
Billy Rowe (through December 31, 2014)	Former Magistrate
Perry Reeder	Magistrate
Billy Coffey	Magistrate
Joe Rogers (through December 31, 2014)	Former Magistrate
Sammy Baker	Magistrate
Terry Hadley (beginning January 1, 2015)	Magistrate
Greg Caldwell (beginning January 1, 2015)	Magistrate

Other Elected Officials:

Jennifer Hutchison-Corbin	County Attorney
Joey White (beginning January 1, 2015)	Jailer
Rick Wilson (through December 31, 2014)	Former Jailer
Shelia Blair (through December 31, 2014)	Former County Clerk
Lisa Greer (beginning January 1, 2015)	County Clerk
Dennis Loy	Circuit Court Clerk
Harrison Moss	Sheriff
Willie Feese Jr.	Property Valuation Administrator
Todd Akin	Coroner

Appointed Personnel:

Barry Corbin	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, 2014

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

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 995,374	\$	\$
Excess Fees	311,618		
Licenses and Permits	34,439		
Intergovernmental	334,336	2,504,504	606,956
Charges for Services		255,230	73,975
Miscellaneous	574,209	52,093	55,135
Interest	648	1,076	
Total Receipts	<u>2,250,624</u>	<u>2,812,903</u>	<u>736,066</u>
DISBURSEMENTS			
General Government	912,588	13,906	
Protection to Persons and Property	100,673		939,996
General Health and Sanitation	96,827	23,971	
Social Services			
Recreation and Culture	7,578		
Roads		2,478,438	
Other Transportation Facilities and Services	138,419		
Debt Service	1,854,769	208,023	43,620
Capital Projects			
Administration	688,985	140,845	283,277
Total Disbursements	<u>3,799,839</u>	<u>2,865,183</u>	<u>1,266,893</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,549,215)</u>	<u>(52,280)</u>	<u>(530,827)</u>
Other Adjustments to Cash (Uses)			
Financing Proceeds	1,950,000	150,000	
Transfers From Other Funds	199,500		530,000
Transfers To Other Funds	(731,045)	(199,500)	
Total Other Adjustments to Cash (Uses)	<u>1,418,455</u>	<u>(49,500)</u>	<u>530,000</u>
Net Change in Fund Balance	(130,760)	(101,780)	(827)
Fund Balance - Beginning (Restated)	447,111	313,111	16,314
Fund Balance - Ending	<u>\$ 316,351</u>	<u>\$ 211,331</u>	<u>\$ 15,487</u>
Composition of Fund Balance			
Bank Balance	\$ 231,055	\$ 616,916	\$ 15,545
Certificate of Deposit	86,018		
Less: Outstanding Checks	(722)	(405,585)	(58)
Fund Balance - Ending	<u>\$ 316,351</u>	<u>\$ 211,331</u>	<u>\$ 15,487</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, 2014
(Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	Forest Fire Fund	Parks and Recreation Fund	911 Fund	Green River Animal Shelter Fund
\$	\$ 2,028	\$	\$ 158,510	\$
125,624		7,291	125,316	18,840
		22,791	44,932	15,698
150		11	56	
<u>125,774</u>	<u>2,028</u>	<u>30,093</u>	<u>328,814</u>	<u>34,538</u>
50,103				
5,308	2,250		261,792	
16,069				111,042
9,184				
		45,161		
		19,543		
14,605		6,875	81,052	16,381
<u>95,269</u>	<u>2,250</u>	<u>71,579</u>	<u>342,844</u>	<u>127,423</u>
30,505	(222)	(41,486)	(14,030)	(92,885)
25,000	231	20,814	61,000	94,000
<u>25,000</u>	<u>231</u>	<u>20,814</u>	<u>61,000</u>	<u>94,000</u>
55,505	9	(20,672)	46,970	1,115
47,580	30	22,038	9,106	1,981
<u>\$ 103,085</u>	<u>\$ 39</u>	<u>\$ 1,366</u>	<u>\$ 56,076</u>	<u>\$ 3,096</u>
\$ 106,238	\$ 39	\$ 1,366	\$ 56,076	\$ 3,096
(3,153)				
<u>\$ 103,085</u>	<u>\$ 39</u>	<u>\$ 1,366</u>	<u>\$ 56,076</u>	<u>\$ 3,096</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, 2014
(Continued)

	Unbudgeted Funds			
	Justice			
	Public			
	Properties			
	Corporation			
	Bond			
	Fund			
	Senior	Corporation	Jail	Total
	Citizens	Bond	Commissary	Funds
	Fund	Fund	Fund	
RECEIPTS				
Taxes	\$	\$	\$	\$ 1,155,912
Excess Fees				311,618
Licenses and Permits				34,439
Intergovernmental		913,538		4,636,405
Charges for Services				329,205
Miscellaneous			12,376	777,234
Interest			36	1,977
Total Receipts		913,538	12,412	7,246,790
DISBURSEMENTS				
General Government				976,597
Protection to Persons and Property			19,535	1,329,554
General Health and Sanitation				247,909
Social Services				9,184
Recreation and Culture				52,739
Roads				2,478,438
Other Transportation Facilities and Services				138,419
Debt Service		911,538		3,037,493
Capital Projects				
Administration	60	2,000		1,234,080
Total Disbursements	60	913,538	19,535	9,504,413
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(60)		(7,123)	(2,257,623)
Other Adjustments to Cash (Uses)				
Financing Proceeds				2,100,000
Transfers From Other Funds				930,545
Transfers To Other Funds				(930,545)
Total Other Adjustments to Cash (Uses)				2,100,000
Net Change in Fund Balance	(60)		(7,123)	(157,623)
Fund Balance - Beginning (Restated)	14,960		28,511	900,742
Fund Balance - Ending	\$ 14,900	\$ 0	\$ 21,388	\$ 743,119
Composition of Fund Balance				
Bank Balance	\$ 14,900	\$	\$ 21,388	\$ 1,066,619
Certificate of Deposit				86,018
Less: Outstanding Checks				(409,518)
Fund Balance - Ending	\$ 14,900	\$ 0	\$ 21,388	\$ 743,119

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, 2014

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 include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation created 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 Government 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 and 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.

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses 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.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

911 Fund - The primary purpose of this fund is to account for the dispatch expense 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 sources of receipts for this fund are from local support and animal adoptions and interlocal agreements with other counties.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Senior Citizens Fund – The purpose of this fund is to account for activity associated with senior citizens building activity.

Justice Public Properties Corporation Bond Fund - The purpose of this fund is to account for debt service requirements of the revenue bond issued for the Adair County Justice Center. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Jail Commissary Fund - The Commissary 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 or recreation 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, 2014
(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 Justice Public Properties Corporation Bond Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

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 these funds.

E. Adair County Elected Officials

Kentucky law provides for election of the officials 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 Adair County, Kentucky.

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

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

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, cash equivalents, and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, 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(4), 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 county 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 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, on August 31, 2013, the County was underpledged by \$503,737.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 199,500	\$ 199,500
Jail Fund	530,000		530,000
Local Government			
Economic Assistance Fund	25,000		25,000
Forest Fire Fund	231		231
Parks & Recreation Fund	20,814		20,814
911 Fund	61,000		61,000
Green River Animal Shelter	94,000		94,000
Total Transfers Out	<u>\$ 731,045</u>	<u>\$ 199,500</u>	<u>\$ 930,545</u>

Reason for transfers:

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

Note 4. Long-term Debt

A. Refunding Bonds – Jail Facility Construction

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$1,911,376 of revenue bonds at various interest rates, of which the county agreed to pay \$486,577 and a proportional share of interest. In October 2004, the KLCFCA refunded these revenue bonds. As a result, the County entered into a second agreement on October 1, 2004 with KLCFCA in order to provide for the reduction of the County's rental payments due under the original agreement. On September 29, 2004, these bonds were refunded in the amount of \$243,950 at an interest rate of 6.34%. As of June 30, 2014, the remaining principal outstanding was \$31,674. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Principal	Interest and Fees
2015	\$ 31,674	\$ 1,004
Totals	<u>\$ 31,674</u>	<u>\$ 1,004</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

B. Land

In February 2008, Adair County 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. The principal outstanding as of June 30, 2014 was \$29,177. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2015	\$ 7,513	\$ 1,231
2016	7,838	930
2017	8,178	618
2018	<u>5,648</u>	<u>231</u>
Totals	<u>\$ 29,177</u>	<u>\$ 3,010</u>

C. 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. Principal and interest payments are due annually. As of June 30, 2014, the principal balance was \$9,680,000. Future debt service requirements are:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2015	\$ 525,000	\$ 387,225
2016	545,000	367,162
2017	570,000	345,544
2018	590,000	322,344
2019	615,000	298,250
2020-2024	3,480,000	1,092,848
2025-2028	<u>3,355,000</u>	<u>301,051</u>
Totals	<u>\$ 9,680,000</u>	<u>\$ 3,114,424</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

D. Rescue Land

In February 2010, Adair County entered into an agreement with the Kentucky Association Of Counties Leasing Trust (KACoLT) to finance the purchase of land to be used for the Rescue Squad. The principal was \$75,000, at a variable interest rate for a period of 60 months. Interest payments are due monthly and principal payments are due annually. The principal outstanding as of June 30, 2014 was \$16,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2015	\$ 16,000	\$ 530
Totals	<u>\$ 16,000</u>	<u>\$ 530</u>

E. Christian Life Center

In May 2011, Adair County 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, 2014 was \$107,362. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2015	\$ 14,500	\$ 4,585
2016	14,828	3,929
2017	15,174	3,237
2018	15,535	2,527
2019	15,878	1,826
2020-2021	<u>31,447</u>	<u>1,347</u>
Totals	<u>\$ 107,362</u>	<u>\$ 17,451</u>

F. Sheriff's Vehicles

In July 2010, Adair County entered into an agreement with the Kentucky Association Of Counties Leasing Trust (KACoLT) to finance the purchase of sheriff vehicles. The principal was \$60,000, at a variable interest rate for a period of 40 months. Principal payments are required annually and interest payments are due monthly. As of June 30, 2014, the agreement was paid in full.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

G. Hospital Equipment

On December 21, 2011, Adair County entered into a written agreement with Adair County Public Hospital District Corporation, Inc. D/B/A Westlake Regional Hospital (the hospital). In accordance with the agreement, the hospital entered into a short term loan with a local lending institution to borrow \$1,700,000 to purchase an IT system for electronic medical records and for hospital operations. As a part of the agreement, Adair County agreed to later enter into a lease agreement in the amount of \$1,700,000 to pay off the loan. The hospital is to repay the principal, interest, and all costs associated with said lease.

On May 4, 2012 Adair County entered in an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to pay off the hospital's loan. The principal was \$1,700,000, at variable interest rate for a period of 24 months. One principal payment of \$1,700,000 was due at the end of the lease and interest payments are due monthly. On March 27, 2014 the lease was paid in full by a Series 2014A – Energy Savings and Hospital lease.

H. Mac Trucks

In May 2013, the Adair County Fiscal Court entered into a \$200,000 agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of dump trucks for the purpose of reselling the dump trucks at auction. These dump trucks sold for \$255,230 and the lease was paid in full. On April 20, 2014, the Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of two dump trucks that will be utilized by the county until resold at auction. The two dump trucks were purchased in the amount of \$258,332 of which \$150,000 was financed. As of June 30, 2014, the principal balance remaining was \$150,000. Future principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest and Fees</u>
2015	\$	\$ 6,815
2016	150,000	2,272
Totals	<u>\$ 150,000</u>	<u>\$ 9,087</u>

I. Series 2014A – Energy Savings and Hospital

On March 27, 2014, the Adair County Fiscal Court entered into a \$1,950,000 agreement with the Kentucky Association of Counties Leasing Trust Program. 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, 2014, the principal balance remaining for the energy savings portion and hospital portion was \$241,667 and \$1,666,667, respectively. Future principal and interest requirements are:

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

I. Series 2014A – Energy Savings and Hospital (Continued)

A. Energy Savings Portion

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2015	\$ 26,667	\$ 7,626
2016	22,500	6,987
2017	25,000	6,256
2018	25,000	5,444
2019	25,000	4,631
2020-2024	<u>117,500</u>	<u>10,888</u>
Totals	<u>\$ 241,667</u>	<u>\$ 41,832</u>

B. Hospital Portion

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2015	\$ 111,667	\$ 59,220
2016	92,500	56,338
2017	97,500	53,331
2018	100,000	50,163
2019	102,500	46,913
2020-2024	567,500	182,075
2025-2028	<u>595,000</u>	<u>73,568</u>
Totals	<u>\$ 1,666,667</u>	<u>\$ 521,608</u>

E. Changes In Long-Term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
Revenue Bonds	\$10,246,460	\$	\$ 534,786	9,711,674	\$ 556,674
Financing Obligations	<u>2,106,913</u>	<u>2,100,000</u>	<u>1,996,040</u>	<u>2,210,873</u>	<u>176,347</u>
Long-term Liabilities	<u>\$12,353,373</u>	<u>\$ 2,100,000</u>	<u>\$ 2,530,826</u>	<u>\$ 11,922,547</u>	<u>\$ 733,021</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. 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.

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 the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

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% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$429,774, FY 2013 was \$523,106, and FY 2014 was \$562,787.

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 (members 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.

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.

CERS also 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.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Employee Retirement System (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen 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, such 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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

Note 6. 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 permits 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 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 7. Insurance

For the fiscal year ended June 30, 2014, Adair County 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 a 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.

Note 8. Agency Trust Funds

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 trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The reconciled bank balance in the Jail Inmate Fund as of June 30, 2014 was \$2,683.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 9. Related Party Transactions

During the fiscal year ended June 30, 2014, the fiscal court paid a total of \$21,792 to Columbia Tire & Recap. The fiscal court made expenditures from the General Fund, Road Fund, and LGEA Fund of \$560, \$20,672, and \$560, respectively to Columbia Tire & Recap. Columbia Tire and Recap was owned by the Former County Judge/Executive's father who is now deceased.

Note 10. Prior Period Adjustment

The Senior Citizens Fund was not included in prior year's financial statement, as a result, an adjustment of \$14,960 was made to the beginning balance.

Note 11. Subsequent Event

In April 2015, the Adair County Fiscal Court entered into a \$150,000 agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of dump trucks for the purpose of reselling the dump trucks at auction.

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 980,000	\$ 980,000	\$ 995,374	\$ 15,374
In Lieu Tax Payments	27,000	27,000		(27,000)
Excess Fees	184,269	184,269	311,618	127,349
Licenses and Permits	36,650	36,650	34,439	(2,211)
Intergovernmental	224,204	224,204	334,336	110,132
Miscellaneous	2,127,265	2,127,265	574,209	(1,553,056)
Interest	1,100	1,100	648	(452)
Total Receipts	<u>3,580,488</u>	<u>3,580,488</u>	<u>2,250,624</u>	<u>(1,329,864)</u>
DISBURSEMENTS				
General Government	692,740	730,145	662,588	67,557
Protection to Persons and Property	36,400	119,458	100,673	18,785
General Health and Sanitation	40,582	101,886	96,827	5,059
Social Services	500	500		500
Recreation and Culture	6,600	8,937	7,578	1,359
Other Transportation Facilities and Services	150,000	150,000	138,419	11,581
Debt Service	1,814,962	1,631,303	154,769	1,476,534
Capital Projects		6,498		6,498
Administration	651,673	766,841	688,985	77,856
Total Disbursements	<u>3,393,457</u>	<u>3,515,568</u>	<u>1,849,839</u>	<u>1,665,729</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>187,031</u>	<u>64,920</u>	<u>400,785</u>	<u>335,865</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	214,642	214,642	199,500	(15,142)
Transfers To Other Funds	<u>(726,673)</u>	<u>(726,673)</u>	<u>(731,045)</u>	<u>(4,372)</u>
Total Other Adjustments to Cash (Uses)	<u>(512,031)</u>	<u>(512,031)</u>	<u>(531,545)</u>	<u>(19,514)</u>
Net Change in Fund Balance	(325,000)	(447,111)	(130,760)	316,351
Fund Balance Beginning	<u>325,000</u>	<u>447,111</u>	<u>447,111</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 316,351</u>	<u>\$ 316,351</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,813,927	\$ 2,413,879	\$ 2,504,504	\$ 90,625
Charge For Services	200,000	200,000	255,230	55,230
Miscellaneous	6,000	6,000	52,093	46,093
Interest	900	900	1,076	176
Total Receipts	<u>2,020,827</u>	<u>2,620,779</u>	<u>2,812,903</u>	<u>192,124</u>
DISBURSEMENTS				
General Government	18,000	14,000	13,906	94
General Health and Sanitation	34,000	24,000	23,971	29
Roads	1,476,475	2,349,318	2,328,438	20,880
Debt Service	212,115	212,115	208,023	4,092
Administration	190,595	144,815	140,845	3,970
Total Disbursements	<u>1,931,185</u>	<u>2,744,248</u>	<u>2,715,183</u>	<u>29,065</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>89,642</u>	<u>(123,469)</u>	<u>97,720</u>	<u>221,189</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(189,642)</u>	<u>(189,642)</u>	<u>(199,500)</u>	<u>(9,858)</u>
Total Other Adjustments to Cash (Uses)	<u>(189,642)</u>	<u>(189,642)</u>	<u>(199,500)</u>	<u>(9,858)</u>
Net Change in Fund Balance	(100,000)	(313,111)	(101,780)	211,331
Fund Balance Beginning	<u>100,000</u>	<u>313,111</u>	<u>313,111</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 211,331</u>	<u>\$ 211,331</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 664,400	\$ 664,400	\$ 606,956	\$ (57,444)
Charges for Services	65,400	65,400	73,975	8,575
Miscellaneous	57,200	57,200	55,135	(2,065)
Total Receipts	<u>787,000</u>	<u>787,000</u>	<u>736,066</u>	<u>(50,934)</u>
DISBURSEMENTS				
Protection to Persons and Property	951,400	954,337	939,996	14,341
Debt Service	32,738	43,620	43,620	
Administration	304,650	307,145	283,277	23,868
Total Disbursements	<u>1,288,788</u>	<u>1,305,102</u>	<u>1,266,893</u>	<u>38,209</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(501,788)</u>	<u>(518,102)</u>	<u>(530,827)</u>	<u>(12,725)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>501,788</u>	<u>501,788</u>	<u>530,000</u>	<u>28,212</u>
Total Other Adjustments to Cash (Uses)	<u>501,788</u>	<u>501,788</u>	<u>530,000</u>	<u>28,212</u>
Net Change in Fund Balance		(16,314)	(827)	15,487
Fund Balance Beginning		<u>16,314</u>	<u>16,314</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,487</u>	<u>\$ 15,487</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 140,000	\$ 140,000	\$ 125,624	\$ (14,376)
Miscellaneous	50	50		(50)
Interest	150	150	150	
Total Receipts	140,200	140,200	125,774	(14,426)
DISBURSEMENTS				
General Government	32,875	53,317	50,103	3,214
Protection to Persons and Property	6,200	7,352	5,308	2,044
General Health and Sanitation	17,550	17,625	16,069	1,556
Social Services	2,500	9,684	9,184	500
Recreation and Culture	25,000	25,000		25,000
Roads	70,000	50,000		50,000
Airports	7,000	7,000		7,000
Administration	29,075	20,222	14,605	5,617
Total Disbursements	190,200	190,200	95,269	94,931
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(50,000)	(50,000)	30,505	80,505
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			25,000	25,000
Transfers To Other Funds	(25,000)	(25,000)		25,000
Total Other Adjustments to Cash (Uses)	(25,000)	(25,000)	25,000	50,000
Net Change in Fund Balance	(75,000)	(75,000)	55,505	130,505
Fund Balance Beginning	75,000	75,000	47,580	(27,420)
Fund Balance - Ending	\$ 0	\$ 0	\$ 103,085	\$ 103,085

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

FOREST FIRE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,000	\$ 2,000	\$ 2,028	\$ 28
Total Receipts	2,000	2,000	2,028	28
DISBURSEMENTS				
Protection to Persons and Property	2,250	2,250	2,250	
Administration		30		30
Total Disbursements	2,250	2,280	2,250	30
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(250)	(280)	(222)	58
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	250	250	231	(19)
Total Other Adjustments to Cash (Uses)	250	250	231	(19)
Net Change in Fund Balance		(30)	9	39
Fund Balance Beginning		30	30	
Fund Balance - Ending	\$ 0	\$ 0	\$ 39	\$ 39

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

PARKS AND RECREATION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 25,000	\$ 25,000	\$ 7,291	\$ (17,709)
Miscellaneous	13,000	13,000	22,791	9,791
Interest	25	25	11	(14)
Total Receipts	38,025	38,025	30,093	(7,932)
DISBURSEMENTS				
Recreation and Culture	45,550	47,106	45,161	1,945
Debt Service	19,412	19,546	19,543	3
Administration	13,063	11,373	6,875	4,498
Total Disbursements	78,025	78,025	71,579	6,446
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(40,000)	(40,000)	(41,486)	(1,486)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	25,000	25,000	20,814	(4,186)
Total Other Adjustments to Cash (Uses)	25,000	25,000	20,814	(4,186)
Net Change in Fund Balance	(15,000)	(15,000)	(20,672)	(5,672)
Fund Balance Beginning (Restated)	15,000	15,000	22,038	7,038
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,366	\$ 1,366

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 140,000	\$ 140,000	\$ 158,510	\$ 18,510
Intergovernmental	110,000	110,000	125,316	15,316
Miscellaneous	50	50	44,932	44,882
Interest	50	50	56	6
Total Receipts	250,100	250,100	328,814	78,714
DISBURSEMENTS				
Protection to Persons and Property	270,820	278,980	261,792	17,188
Administration	100,800	101,746	81,052	20,694
Total Disbursements	371,620	380,726	342,844	37,882
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(121,520)	(130,626)	(14,030)	116,596
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	121,520	121,520	61,000	(60,520)
Total Other Adjustments to Cash (Uses)	121,520	121,520	61,000	(60,520)
Net Change in Fund Balance		(9,106)	46,970	56,076
Fund Balance Beginning		9,106	9,106	
Fund Balance - Ending	\$ 0	\$ 0	\$ 56,076	\$ 56,076

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

GREEN RIVER ANIMAL SHELTER FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 26,900	\$ 26,900	\$ 18,840	\$ (8,060)
Miscellaneous	3,700	23,700	15,698	(8,002)
Total Receipts	30,600	50,600	34,538	(16,062)
DISBURSEMENTS				
General Health and Sanitation	87,915	112,687	111,042	1,645
Administration	20,800	18,009	16,381	1,628
Total Disbursements	108,715	130,696	127,423	3,273
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(78,115)	(80,096)	(92,885)	(12,789)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	78,115	78,115	94,000	15,885
Total Other Adjustments to Cash (Uses)	78,115	78,115	94,000	15,885
Net Change in Fund Balance		(1,981)	1,115	3,096
Fund Balance Beginning		1,981	1,981	
Fund Balance - Ending	\$ 0	\$ 0	\$ 3,096	\$ 3,096

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

CDBG CAREER READINESS GRANT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 500,000	\$ 500,000	\$	\$ (500,000)
Total Receipts	500,000	500,000		(500,000)
DISBURSEMENTS				
Social Services	500,000	500,000		500,000
Total Disbursements	500,000	500,000		500,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance Beginning (Restated)				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

CDBG SENIOR CENTER GRANT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 500,000	\$ 500,000	\$	\$ (500,000)
Total Receipts	500,000	500,000		(500,000)
DISBURSEMENTS				
Social Services	500,000	500,000		500,000
Total Disbursements	500,000	500,000		500,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

CDBG SEWER GRANT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 343,000	\$ 343,000	\$	\$ (343,000)
Total Receipts	343,000	343,000		(343,000)
DISBURSEMENTS				
Capital Projects	343,000	343,000		343,000
Total Disbursements	343,000	343,000		343,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

ADAIR COUNTY
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION
INFORMATION – BUDGETARY COMPARISON SCHEDULES

June 30, 2014

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.

Note 2. Reconciliation Of The Budgetary Comparison Schedules

Reconciliation of the General Fund

Total Disbursements-Budgetary Basis	\$ 1,849,839
To adjust for hospital debt transactions	<u>1,950,000</u>
Total Disbursements-Regulatory Basis	<u><u>\$ 3,799,839</u></u>
 Total Other Adjustments to Cash (Uses)-Budgetary Basis	 \$ (531,545)
To adjust for hospital debt transactions	<u>1,950,000</u>
Total Other Adjustments to Cash (Uses)-Regulatory Basis	<u><u>\$ 1,418,455</u></u>

Reconciliation of the Road Fund

Total Disbursements-Budgetary Basis	\$ 2,715,183
To adjust for financing obligation proceeds	<u>150,000</u>
Total Disbursements-Regulatory Basis	<u><u>\$ 2,865,183</u></u>
 Total Other Adjustments to Cash (Uses)-Budgetary Basis	 \$ (199,500)
To adjust for PPC debt payments	<u>150,000</u>
Total Other Adjustments to Cash (Uses)-Regulatory Basis	<u><u>\$ (49,500)</u></u>

ADAIR COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

ADAIR COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,136,845	\$	\$	\$ 2,136,845
Buildings	16,172,071			16,172,071
Vehicles and Equipment	1,579,009	3,200		1,582,209
Other Equipment	407,813	13,806		421,619
Infrastructure	10,397,876	1,492,022		11,889,898
 Total Capital Assets	 <u>\$ 30,693,614</u>	 <u>\$ 1,509,028</u>	 <u>\$ 0</u>	 <u>\$32,202,642</u>

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

June 30, 2014

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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The Honorable Michael Lee Stephens, Adair County Judge/Executive
The Honorable Ann Melton, Former 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, 2014, and the related notes to the financial statement and have issued our report thereon dated November 6, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

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 opinions 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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 comments and recommendations as items 2014-001, 2014-002, 2014-003, and 2014-004 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-005, 2014-006, and 2014-007 to be significant deficiencies.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of 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 comments and recommendations as items 2014-008, 2014-009, and 2014-010.

County Judge's And County Jailer's Response to Finding

The Adair County Judge's and Adair County Jailer's responses to the finding identified in our audit is described in the accompanying comments and recommendations. The County Judge's and County Jailer's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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,



Percy & Gray, PSC
Certified Public Accountants

November 6, 2015

**ADAIR COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

ADAIR COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

INTERNAL CONTROL - MATERIAL WEAKNESSES

2014-001 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts, collection and processing, recording-keeping, disbursement processing, report preparation, and reconciliations. The purpose of adequate segregation of duties is to provide checks and balances to the accounting process to protect employees in the normal course of performing their assigned functions and to protect the fiscal court against inaccurate financial reporting. These checks and balances prevent one individual from having a significant role in these accounting functions without oversight.

The County Treasurer prepares and deposits the receipts, posts to the ledger, prepares reports from these ledgers for submission to the Department for Local Government (DLG), performs the bank reconciliations for budgeted funds, and records and reconciliations the accounts for the Public Properties Corporation. The Finance Officer prepares a listing of bills for Fiscal Court's approval, posts to the ledger, and prepares the checks. The County Judge and County Treasurer sign the checks without evidence of a comparison to the invoices.

Due to the lack of an adequate segregation of duties, we noted that twice during the fiscal year the 911 Fund showed negative cash balances on the bank statements. In addition, the Public Properties financial statements were incomplete and inaccurate.

To adequately protect employees in the normal course of performing their assigned functions and to protect the fiscal court against inaccurate financial reporting, we recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this by initialing or signing the reviewed documents. In addition, we recommend the County Treasurer and County Judge/Executive, prior to signing checks; compare them against the original invoices.

County Judge/Executive Stephen's Response: New administration has implemented an "Internal Controls Procedures Manual", this will correct many procedural deficiencies. In the past, invoices were reviewed and acknowledged but not always initialed for evidence. Having a part-time County Treasurer there were isolated events of late posting of deposits and approved transfers.

2014-002 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With The Department For Local Government Requirements, For Financial Statement Note Disclosure

The Fiscal Court did not have a completed capital asset schedule for fiscal year ended June 30, 2014. A list of capital assets additions and disposals was not properly maintained. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount.

ADAIR COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2014-002 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With The Department For Local Government Requirements, For Financial Statement Note Disclosure (Continued)

The Fiscal Court cannot properly determine insurance needs or if surplus property is owned without proper documentation. The Instructional Guide For Fiscal Court Budget Preparation and State Local Officer Policy Manual, issued by the Department for Local Government (DLG), outline requirements for capital assets. The requirements specifically state: "All contracts, invoices, purchase orders and authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records." Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. The capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As equipment is disposed of it should be removed from the listing.

We recommend the Fiscal Court maintain complete and accurate capital assets schedules to comply with the Department of Local Government's policy manual. In addition, the Fiscal Court should take a physical inventory of its capital assets on a regular basis to ensure that only active, in-service machinery and equipment are included on the Fiscal Court's capital asset listing. These steps will ensure that capital assets are properly stated and the capital asset listing is reliable.

County Judge/Executive Stephen's Response: A new "Schedule of Values" has been implemented and updated. This inventory log will be also be used for insurance coverage determinations.

2014-003 The Treasurer Should Maintain Proper And Accurate Accounting Records For The Public Properties Corporation

Fiscal Court is financially accountable and legally obligated for the debt of the Adair County Public Properties Corporation (PPC), therefore, the PPC is considered an unbudgeted fund of Adair County Fiscal Court and is consider part of the county's financial statements. During our review of PPC records and financial statement provided by the County Treasurer, we noted that financial statements and reconciliations maintained were not complete and accurate.

We recommend the Treasurer prepare and maintain accurate and complete bank reconciliations and financial statements for the Public Properties Corporation.

County Judge/Executive Stephen's Response: The spread sheet used to keep the "Public Property Records" had a broken link and failed to carry information forward properly, however, it was maintained. The spread sheet will be fixed.

2014-004 The Treasurer Should Have Included The Senior Citizens Fund In The Quarterly Reports

The county opened a bank account to account for funds associated with the Senior Citizens Center Building Project, however, the county failed to include this account in the financial statements of the county. All county funds are required to be reported in the quarterly reports and treasurer's settlements according to the Instructional Guide For Fiscal Court Budget Preparation and State Local Officer Policy Manual, issued by the Department for Local Government (DLG) and Kentucky Revised Statutes.

It should also be noted that this account has been dormant over the last year and has incurred month dormant charges totaling \$60 for the year without any other activity.

**ADAIR COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

**2014-004 The Treasurer Should Have Included The Senior Citizens Fund In The Quarterly Reports
(Continued)**

We recommend that the Treasurer and Fiscal Court ensure that all bank accounts are accounted for in accordance with the Department of Local Government guidelines and Kentucky Revised Statutes.

County Judge/Executive Stephen's Response: The failure to include the Senior Center Citizens Building Project Fund was an error and an over site. Any future similar funds will be included.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES

2014-005 The Jailer Should Strengthen Internal Controls Over Inmate Bank Reconciliations

During our testing, we found that the inmate bank account did not reconcile as of June 30, 2014, and the difference could not be readily explained. The inmate accounts are clearing accounts and should reconcile to the balance of outstanding receivables and liabilities at the end of each month. The reconciled bank balance as of June 30, 2014 was \$2,683. The bookkeeper did not have a list of liabilities as of June 30, 2014 which should have included the inmates balance and other potential liabilities. After considering the determinable inmate monies on hand of \$679, an unexplained variance of \$2,004 existed.

The unexplained variance could indicate that all bills, such as the commissary, booking fees, housing fees or bonds are not being properly paid out of the account. It could also indicate that refunds are being issued to inmates when they are not entitled.

We also discovered that bank reconciliations were not reviewed by an independent employee to verify accuracy and completeness.

We recommend internal controls over the inmate account bank reconciliations be strengthened to ensure receivables as well as obligations for accrued liabilities are reflected on the bank reconciliation and ending reconciled bank balances are accurate and that bank reconciliations should then be reviewed by an independent employee to verify accuracy and completeness.

County Judge/Executive Stephen's Response: Jailer to respond.

County Jailer White's Response: Although we no longer use this system we were assured it met the state's standards for accounting. We were unaware of the need for these reports and could have contacted the software provider to see if they were available had we known we needed them. We know our new system addresses this problem.

2014-006 The Fiscal Court Should Properly Reconcile The Payroll Revolving Account

During the course of performing the audit, we noted the payroll revolving account was not properly reconciled as of June 30, 2014. A revolving account is an account that when reconciled on a monthly basis, should either reconcile to zero or to an amount of funds originally deposited into the account to keep the account open. The Treasurer reconciles the account to the point of allowing for outstanding checks and deposits, however outstanding receivables and liabilities are not included as part of the reconciliation.

By not properly reconciling the county's bank accounts, there is an increased risk of misstating the county's financial statements, over drafting the bank account, or resulting in unpaid invoices or paychecks.

ADAIR COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES (Continued)

2014-006 The Fiscal Court Should Properly Reconcile The Payroll Revolving Account (Continued)

We recommend internal controls over the payroll account bank reconciliations be strengthened to ensure ending reconciled bank balances are accurate. Bank reconciliations should then be reviewed by the County Judge/Executive to verify accuracy and completeness.

County Judge/Executive Stephen's Response: The Payroll Account has historically been reconciled on a cash basis, not an accrual basis. However, the reconciliation is now currently being reconciled on an accrual basis, which will include all accruals of insurances and taxes payable, but not yet due.

2014-007 All Cash Transfers Should Be Properly Approved and Recorded

During our test of cash transfers we noted five cash transfers that were not approved by the fiscal court until after the fact and two others that were approved in amounts less than transferred.

By not properly accounting for cash transfers, there is an increased risk of misstatements to the county's financial statements and violations of requirements and procedures prescribed by the Department of Local Government.

We recommend that all cash transfers be properly approved by the fiscal court prior to being made and not exceed the approved amount.

County Judge/Executive Stephen's Response: Due to the accepting of bills just prior to the start of Fiscal Court meeting, the County Treasurer and Finance Officer do not have sufficient time to determine exact amounts of cash transfers required to meet the obligations of the court that would be needed prior to the next scheduled meeting. The transfers were made to prevent funds from having negative balance. The County Treasurer recommends the Thursday prior to Fiscal Court meeting as the cut-off day for accepting bills in order to maintain compliance.

STATE LAWS, REGULATIONS AND OTHER MATTERS

2014-008 The Treasurer Should Record All Budget Amendments That Are Approved By The Fiscal Court And The Department of Local Government

During the course of the audit we noted a budget amendment associated with expected Community Development Block Grants monies was approved in March 2014. These funds were never received. Subsequently, this amendment was not included in the 4th Quarter Financial Report. In addition, as a result of the amendment, three (3) additional funds should have been created and should have been reported as part of the budget in the 4th Quarter Financial Report. The process of performing a budget amendment lawfully makes the changes in budget required to be included in the county's financial reporting.

We recommend that all properly approved amendments be included in the county's reports as required by the Department of Local Government and Kentucky Revised Statutes.

County Judge/Executive Stephen's Response: An oversight due to the fact the funds were never received during the time frame.

ADAIR COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

STATE LAWS, REGULATIONS AND OTHER MATTERS (Continued)

2014-009 The Fiscal Court Should Properly Account For Encumbrances

The Adair County Fiscal Court did not properly account for encumbrances as required by the Department for Local Development (DLG). DLG requires the county to report encumbrances on the front page of the 4th quarter financial report.

The fiscal court did show encumbrances on the 4th Quarter Financial Report, however, it was found that encumbrances were not accurately disclosed. The encumbrances listing showed \$249,826 of encumbrances across seven (7) funds. The encumbrances listed in five (5) of the funds was for a grocery store totaling \$233,461 and the other two (2) funds were for a safety supply company in the amount of \$16,365. The vendors listed are not accurate and could not be traced. Not complying with reporting requirements increases the risk of possibly misstating the county's financial statements.

We recommend the Adair County Fiscal Court comply with guidelines as provided by the Department for Local Government and ensure that encumbrances are accurately reported.

County Judge/Executive Stephen's Response: The total dollar amount of encumbrances for the time period were current, however, due to an unknown program issue, the amounts within the individual funds were incorrect. This will be closely monitored moving forward.

2014-010 The County Should Adhere To The Publishing Requirement of KRS 424.220 In Regards To The Annual Treasurer's Settlement

During the course of the audit it was noted that the county did not publish the Treasurer's Settlement in accordance with KRS 424.220. The Fiscal Court voted to publish the audit in lieu of the Treasurer's Settlement, however, certain publishing requirements that must be performed.

In the situation of publishing the audit in lieu of the Treasurer's Settlement, the county must publish a notice in the local paper that says that the fiscal court is publishing the audit in lieu of the settlement and where a copy of the settlement can be obtained.

We recommend that the county adhere to the publishing requirements of KRS 424.220 for publishing the Annual Treasurer's Settlement.

County Judge/Executive Stephen's Response: Under new administrative procedural guidelines the Court Clerk will now advertise the "Annual Treasurer Settlement".

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

ADAIR COUNTY FISCAL COURT


**For The Fiscal Year Ended
June 30, 2014**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
PROGRAM

ADAIR COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

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


County Judge/Executive


County Treasurer

