

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

**For The Fiscal Year Ended
June 30, 2013**



PEERCY AND GRAY, PSC

Certified Public Accountants

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ADAIR COUNTY FISCAL COURT

June 30, 2013

Peercy & Gray, PSC has completed the audit of the Adair County Fiscal Court for fiscal year ended June 30, 2013.

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

Financial Condition:

The Adair County Fiscal Court had total receipts of \$8,089,492, an increase of \$1,361,087 disbursements of \$10,011,084 an increase of \$827,375, and a cash and cash equivalents balance of \$885,782, a decrease of \$221,592 from the prior year.

Report Comments:

- 2013-01 The Jailer Did Not Properly Maintain Accounting Records In The Manner Required By The State Local Finance Officer Policy Manual
- 2013-02 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements
- 2013-03 The Fiscal Court Should Properly Account For Encumbrances
- 2013-04 The Fiscal Court Should Annually Set And Approve Salaries For All County Employees
- 2013-05 All Cash Transfers Should Be Properly Approved and Recorded
- 2013-06 The Fiscal Court Should Request Budget Amendments In Accordance With KRS 67.078 And 68.280

Deposits:

The fiscal court deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Michael Stephens, Adair County Judge/Executive

Honorable Ann Melton, Former 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 Cash Balances and Cash Equivalents - Regulatory Basis of Adair County, Kentucky, for the year ended June 30, 2013, 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. 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 in more detail 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, 2013, 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 cash balances and cash equivalents of Adair County, Kentucky as of June 30, 2013, 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.

Emphasis of Matters

As discussed in Note 13 to the financial statement, in fiscal year 2013, the Adair County Fiscal Court adopted new accounting guidance on a regulatory basis. Our opinion is not modified with respect to this matter.

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. 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 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 are fairly stated in all material respects in relation to the basic financial statement. The capital asset schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2014 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:

- 2013-01 The Jailer Did Not Properly Maintain Accounting Records In The Manner Required By The State Local Finance Officer Policy Manual
- 2013-02 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements
- 2013-03 The Fiscal Court Should Properly Account For Encumbrances
- 2013-04 The Fiscal Court Should Annually Set And Approve Salaries For All County Employees
- 2013-05 All Cash Transfers Should Be Properly Approved and Recorded
- 2013-06 The Fiscal Court Should Request Budget Amendments In Accordance With KRS 67.078 And 68.280

Respectfully submitted,



Peercy & Gray, PSC
Certified Public Accountants

December 1, 2014

ADAIR COUNTY OFFICIALS

For The Year Ended June 30, 2013

Fiscal Court Members:

Ann Melton	County Judge/Executive
Harold Burton	Magistrate
Daryl Flatt	Magistrate
Billy Rowe	Magistrate
Perry Reeder	Magistrate
Billy Coffey	Magistrate
Joe Rogers	Magistrate
Sammy Baker	Magistrate

Other Elected Officials:

Jennifer Hutchison-Corbin	County Attorney
Rick Wilson	Jailer
Sheila Blair	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
Jobe Darnell	County Road Supervisor

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

For The Year Ended June 30, 2013

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

For The Year Ended June 30, 2013

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 988,552	\$	\$
In Lieu Tax Payments	47,948		
Excess Fees	177,260		
Licenses and Permits	35,261		
Intergovernmental	328,827	2,345,908	637,138
Charges for Services		199,153	70,292
Miscellaneous	1,934,108	50,053	101,098
Interest	1,000	1,073	
Total Receipts	<u>3,512,956</u>	<u>2,596,187</u>	<u>808,528</u>
DISBURSEMENTS			
General Government	638,389	42,944	
Protection to Persons and Property	41,132		925,443
General Health and Sanitation	101,682	10,931	
Social Services			
Recreation and Culture	5,422		
Roads		1,999,649	
Other Transportation Facilities and Services	146,848		
Debt Service	3,133,102	209,457	32,793
Administration	625,802	160,453	326,313
Total Disbursements	<u>4,692,377</u>	<u>2,423,434</u>	<u>1,284,549</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,179,421)</u>	<u>172,753</u>	<u>(476,021)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	253,000		454,782
Transfers To Other Funds	(652,032)	(220,000)	
Financing Obligations	1,500,000	200,000	
Total Other Adjustments to Cash (Uses)	<u>1,100,968</u>	<u>(20,000)</u>	<u>454,782</u>
Net Change in Cash Balances and Cash Equivalents	(78,453)	152,753	(21,239)
Cash Balances and Cash Equivalents - Beginning (Restated)	525,564	160,358	37,553
Cash Balances and Cash Equivalents - Ending	<u>\$ 447,111</u>	<u>\$ 313,111</u>	<u>\$ 16,314</u>

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

ADAIR COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS
For The Year Ended June 30, 2013
(Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	Forest Fire Fund	Parks & Recreation Fund	E-911 Fund	Green River Animal Shelter Fund
\$	\$ 2,030	\$	\$ 161,848	\$
136,434		16,671	111,120	10,760
974		26,605	19,464	6,801
149		19	40	
137,557	2,030	43,295	292,472	17,561
59,477				
13,079	2,250		275,428	
21,544				93,673
601				
		39,228		
20,000				
		19,730		
5,289		6,076	97,526	20,928
119,990	2,250	65,034	372,954	114,601
17,567	(220)	(21,739)	(80,482)	(97,040)
	250	25,500	85,000	95,500
(33,000)				
(33,000)	250	25,500	85,000	95,500
(15,433)	30	3,761	4,518	(1,540)
63,013		18,277	4,588	3,521
\$ 47,580	\$ 30	\$ 22,038	\$ 9,106	\$ 1,981

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

ADAIR COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS
For The Year Ended June 30, 2013
(Continued)

	Unbudgeted Funds			
	Public Properties Corporation Bond Fund	Public Properties Corporation Construction Fund	Jail Commissary Fund	Total Funds
RECEIPTS				
Taxes	\$	\$	\$	\$ 1,152,430
In Lieu Tax Payments				47,948
Excess Fees				177,260
Licenses and Permits				35,261
Intergovernmental	670,507			4,257,365
Charges for Services				269,445
Miscellaneous			8,327	2,147,430
Interest			72	2,353
Total Receipts	670,507		8,399	8,089,492
DISBURSEMENTS				
General Government				740,810
Protection to Persons and Property			19,314	1,276,646
General Health and Sanitation				227,830
Social Services				601
Recreation and Culture				44,650
Roads				2,019,649
Other Transportation Facilities and Services				146,848
Debt Service	914,581			4,309,663
Administration	2,000			1,244,387
Total Disbursements	916,581		19,314	10,011,084
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	(246,074)		(10,915)	(1,921,592)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	245,871			1,159,903
Transfers To Other Funds		(245,871)	(9,000)	(1,159,903)
Financing Obligations				1,700,000
Total Other Adjustments to Cash (Uses)	245,871	(245,871)	(9,000)	1,700,000
Net Change in Cash Balances and Cash Equivalents	(203)	(245,871)	(19,915)	(221,592)
Cash Balances and Cash Equivalents - Beginning (Restated)	203	245,871	48,426	1,107,374
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 28,511	\$ 885,782

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, 2013

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 under the provisions of KRS 58.180 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 cash and cash equivalents 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 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, 2013
(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 – The primary purpose of this fund is to account for receipts and disbursements associated with parks and recreation activities.

E-911 Fund – The primary purpose of this fund is to account for receipts and disbursements associated with the operation of 911 services.

Green River Animal Shelter Fund – The primary purpose of this fund is to account for the activities of operating the animal shelter.

Unbudgeted Funds

Public Properties Corporation Construction Fund - The purpose of this fund is to account for funds received from a bond issuance. The funds may be used for completing major public parks land acquisition and development and for the Adair County Justice Center.

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

Adair County 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 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.

D. Budgetary Information

Annual budgets are adopted on a cash basis of accounting 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
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The State Local Finance Officer does not require the Adair County Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

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 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

F. Deposits and Investments

The government's cash and cash equivalents are 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.

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.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

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, 2013, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Receivables

A. Hospital Loan

On May 4, 2012 Adair County entered into a financing obligation with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purpose of paying off debt of the Adair County Public Hospital District Corporation, Inc. D/B/A Westlake Regional Hospital (the hospital). The principal was \$1,700,000, at variable interest rate for a period of 24 months. One principal payment of \$1,700,000 is due at the end of the lease and interest payments are due monthly. The hospital has agreed to make all of the interest payments and the one time principal payment. The hospital owes \$1,700,000 in principal on the financing obligation as of June 30, 2013.

B. Changes In Receivables

Receivable activity of the primary government for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Adair County Public Hospital District Corporation, Inc.	\$ 1,700,000		\$	\$ 1,700,000	\$
Receivables	<u>\$ 1,700,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,700,000</u>	<u>\$</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 4. Assets Held For Resale

Two 2014 dump trucks with an acquisition cost of \$253,628 were purchased in April 2013. The County paid \$53,628 from the Road Fund and then obtained a financing obligation from the Kentucky Association of Counties Leasing Trust in the amount of \$200,000. These trucks are not included in capital assets, as Adair County does not intend to hold the assets beyond one year. In fiscal year 2013, the fiscal court disposed of assets held for resale with a cost of \$235,148.

Note 5. Transfers

The table below shows the interfund operating transfers for fiscal year 2013.

	General Fund	Road Fund	Local Government Economic Assistance Fund	Public Properties Corporation Bond Fund	Jail Commissary Fund	Total Transfers In
General Fund	\$	\$ 220,000	\$ 33,000		\$	\$ 253,000
Jail Fund	445,782				9,000	454,782
E-911 Fund	85,000					85,000
Parks & Recreation Fund	25,500					25,500
Forest Fire Fund	250					250
Green River Animal Shelter Fund	95,500					95,500
Public Properties Corporation Fund				245,871		245,871
Total Transfers Out	<u>\$ 652,032</u>	<u>\$ 220,000</u>	<u>\$ 33,000</u>	<u>\$ 245,871</u>	<u>\$ 9,000</u>	<u>\$ 1,159,903</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 6. Trust Fund

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 balance in the Jail Inmate Fund as of June 30, 2013 was \$6,471.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 7. Short Term Debt

Hospital Loan

On August 23, 2012, the Adair County Fiscal Court borrowed \$750,000 on short term notes from two local banks totaling \$1,500,000 at an interest rate of two and one half percent (2.5%). The balance of the notes was due on June 30, 2013. These funds were loaned by the county to the Westlake Regional Hospital for operating expenses. In December 2012, the hospital repaid the principal balance of \$1,500,000 and in June 2013 paid interest totaling \$11,404 to the county. The county subsequently paid off the principal and interest upon receipt.

Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligation	\$	\$ 1,500,000	\$1,500,000	\$	
Total Short-term Debt	\$ 0	\$ 1,500,000	\$ 1,500,000	\$ 0	\$ 0

Note 8. 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, 2013, the remaining principal outstanding was \$61,460. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Principal	Interest and Fees
2014	\$ 29,785	\$ 2,952
2015	31,675	1,004
Totals	\$ 61,460	\$ 3,956

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 8. 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, 2013 was \$36,378. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2014	\$ 7,201	\$ 1,519
2015	7,513	1,231
2016	7,838	930
2017	8,178	618
2018	5,648	231
Totals	<u>\$ 36,378</u>	<u>\$ 4,529</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, 2013, the principal balance was \$10,185,000. Future debt service requirements are:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2014	\$ 505,000	\$ 406,538
2015	525,000	387,225
2016	545,000	367,162
2017	570,000	345,544
2018	590,000	322,344
2019-2023	3,340,000	1,229,726
2024-2028	4,110,000	462,423
Totals	<u>\$ 10,185,000</u>	<u>\$ 3,520,962</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 8. 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, 2013 was \$32,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2014	\$ 16,000	\$ 1,303
2015	<u>16,000</u>	<u>530</u>
Totals	<u>\$ 32,000</u>	<u>\$ 1,833</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, 2013 was \$121,535. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2014	\$ 14,174	\$ 5,237
2015	14,500	4,585
2016	14,828	3,929
2017	15,174	3,237
2018	15,534	2,527
2019-2021	<u>47,325</u>	<u>3,173</u>
Totals	<u>\$ 121,535</u>	<u>\$ 22,688</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. The principal outstanding as of June 30, 2013 was \$17,000. Future principal and interest requirements are:

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 8. Long-term Debt (Continued)

F. Sheriff's Vehicles (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest & Fees</u>
2014	\$ 17,000	\$ 182
Totals	<u>\$ 17,000</u>	<u>\$ 182</u>

G. Mac Trucks

In May 2012, Adair County entered into an agreement with the Kentucky Association Of Counties Leasing Trust (KACoLT) to finance the purchase of dump trucks. The principal was \$200,000, at a variable interest rate for a period of 18 months. One principal payment is due at the end of the lease and interest payments are due monthly. The principal outstanding as of June 30, 2013 was paid in full.

H. 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 is due at the end of the lease and interest payments are due monthly. The principal outstanding as of June 30, 2013 was \$1,700,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest & Fees</u>
2014	\$ 1,700,000	\$ 71,765
Totals	<u>\$ 1,700,000</u>	<u>\$ 71,765</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 8. Long-term Debt (Continued)

I. Mac Trucks

In May 2013, Adair County entered into an agreement with the Kentucky Association Of Counties Leasing Trust (KACoLT) to finance the purchase of dump trucks. The principal was \$200,000, at a variable interest rate for a period of 18 months. One principal payment is due at the end of the lease and interest payments are due monthly. The principal outstanding as of June 30, 2013 was \$200,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest and Fees</u>
2014	\$	\$ 9,086
2015	<u>200,000</u>	<u>3,029</u>
Totals	<u>\$ 200,000</u>	<u>\$ 12,115</u>

J. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2013, 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	\$ 10,764,468	\$	\$ 518,008	\$ 10,246,460	\$ 534,785
Financing Obligations	<u>2,159,671</u>	<u>200,000</u>	<u>252,758</u>	<u>2,106,913</u>	<u>1,754,375</u>
Long-term Liabilities	<u>\$ 12,924,139</u>	<u>\$ 200,000</u>	<u>\$ 770,766</u>	<u>\$ 12,353,373</u>	<u>\$ 2,289,160</u>

Note 9. 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 19.55 percent.

ADAI COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 9. Employee Retirement System (Continued)

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 37.60 percent.

The county's contribution for FY 2011 was \$420,471, FY 2012 was \$429,774, and FY 2013 was \$523,106.

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.

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.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 10. Deferred Compensation

On January 8, 2002, 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 11. Insurance

For the fiscal year ended June 30, 2013, 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 12. Related Party Transactions

During the fiscal year ended June 30, 2013, the fiscal court paid a total of \$8,273 to Columbia Tire & Recap. Columbia Tire and Recap was owned by the Former County Judge/Executive's father who is now deceased.

Note 13. Change in Basis of Accounting and Prior Period Adjustments

Adair County, Kentucky, has changed its basis of accounting from presenting its financial statements in accordance with the modified cash basis of accounting and relevant Government Accounting Standards Board (GASB) pronouncements to the regulatory basis of accounting as prescribed or permitted by the Department for Local Government and the laws of the Commonwealth of Kentucky. The effect was a decrease to the beginning balance of the General Fund by \$47,773, due to an increase to the balance of the Parks & Recreation Fund by \$18,277, an increase to the balance of the Green River Animal Shelter Fund by \$3,521, an increase to the balance of the Local Government Economic Assistance Fund by \$63,013, and a decrease of \$37,038 for the prior year Due To Road Fund amount on the Statement of Receipts, Disbursements, and Changes in Cash and Cash Equivalents Balance-Regulatory Basis.

The Road Fund beginning balance was increased by \$37,038 because of the Due From General Fund amount, and decreased by \$38,918 due the correction of a deposit recorded in the wrong fund in the prior year audit.

The Jail Commissary Fund beginning fund balance was decreased by \$9,605 because in the prior year audit the Inmate Account was included in the Commissary Fund. In the current year audit the Inmate Account is considered a Trust Fund.

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2013

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2013

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 925,000	\$ 990,529	\$ 988,552	\$ (1,977)
In Lieu Tax Payments	24,000	47,948	47,948	
Excess Fees	153,808	177,260	177,260	
Licenses and Permits	35,650	39,168	35,261	(3,907)
Intergovernmental	186,300	328,828	328,827	(1)
Miscellaneous	496,224	2,000,963	1,934,108	(66,855)
Interest	1,500	1,500	1,000	(500)
Total Receipts	<u>1,822,482</u>	<u>3,586,196</u>	<u>3,512,956</u>	<u>(73,240)</u>
DISBURSEMENTS				
General Government	621,038	696,541	638,389	58,152
Protection to Persons and Property	30,900	72,097	41,132	30,965
General Health and Sanitation	39,582	106,222	101,682	4,540
Social Services	500	500		500
Recreation and Culture	6,600	6,600	5,422	1,178
Other Transportation Facilities and Services	170,000	170,000	146,848	23,152
Debt Service	122,424	3,144,506	3,133,102	11,404
Administration	618,835	902,691	625,802	276,889
Total Disbursements	<u>1,609,879</u>	<u>5,099,157</u>	<u>4,692,377</u>	<u>406,780</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>212,603</u>	<u>(1,512,961)</u>	<u>(1,179,421)</u>	<u>333,540</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	214,107	214,107	253,000	38,893
Transfers To Other Funds	(726,710)	(726,710)	(652,032)	74,678
Financing Obligations		1,500,000	1,500,000	
Total Other Adjustments to Cash (Uses)	<u>(512,603)</u>	<u>987,397</u>	<u>1,100,968</u>	<u>113,571</u>
Net Change in Cash Balances and Cash Equivalents	(300,000)	(525,564)	(78,453)	447,111
Cash Balances and Cash Equivalents - Beginning (Restated)	<u>300,000</u>	<u>525,564</u>	<u>525,564</u>	
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 447,111</u>	<u>\$ 447,111</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,616,308	\$ 2,289,508	\$ 2,345,908	\$ 56,400
Charges for Services	195,000	199,153	199,153	
Miscellaneous	6,000	48,294	50,053	1,759
Interest	700	1,032	1,073	41
Total Receipts	<u>1,818,008</u>	<u>2,537,987</u>	<u>2,596,187</u>	<u>58,200</u>
DISBURSEMENTS				
General Government	75,700	75,700	42,944	32,756
General Health and Sanitation	34,000	35,389	10,931	24,458
Roads	1,325,225	1,986,359	1,799,649	186,710
Debt Service	205,000	209,457	209,457	
Administration	138,976	202,333	160,453	41,880
Total Disbursements	<u>1,778,901</u>	<u>2,509,238</u>	<u>2,223,434</u>	<u>285,804</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>39,107</u>	<u>28,749</u>	<u>372,753</u>	<u>344,004</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(189,107)</u>	<u>(189,107)</u>	<u>(220,000)</u>	<u>(30,893)</u>
Total Other Adjustments to Cash (Uses)	<u>(189,107)</u>	<u>(189,107)</u>	<u>(220,000)</u>	<u>(30,893)</u>
Net Change in Cash Balances and Cash Equivalents	(150,000)	(160,358)	152,753	313,111
Cash Balances and Cash Equivalents - Beginning (Restated)	<u>150,000</u>	<u>160,358</u>	<u>160,358</u>	
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 313,111</u>	<u>\$ 313,111</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

JAIL FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 599,500	\$ 786,724	\$ 646,138	\$ (140,586)
Charges for Services	62,950	79,184	70,292	(8,892)
Miscellaneous	60,400	100,808	101,098	290
Total Receipts	722,850	966,716	817,528	(149,188)
DISBURSEMENTS				
Protection to Persons and Property	930,950	958,927	925,443	33,484
Debt Service	32,800	32,800	32,793	7
Administration	255,650	509,092	326,313	182,779
Total Disbursements	1,219,400	1,500,819	1,284,549	216,270
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(496,550)	(534,103)	(467,021)	67,082
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	496,550	496,550	445,782	(50,768)
Total Other Adjustments to Cash (Uses)	496,550	496,550	445,782	(50,768)
Net Change in Cash Balances and Cash Equivalents		(37,553)	(21,239)	16,314
Cash Balances and Cash Equivalents - Beginning		37,553	37,553	
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 16,314	\$ 16,314

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 175,000	\$ 175,000	\$ 136,434	\$ (38,566)
Miscellaneous	100	1,064	974	(90)
Interest	200	200	149	(51)
Total Receipts	175,300	176,264	137,557	(38,707)
DISBURSEMENTS				
General Government	33,075	70,908	59,477	11,431
Protection to Persons and Property	6,350	15,273	13,079	2,194
General Health and Sanitation	16,150	26,393	21,544	4,849
Social Services	2,500	2,500	601	1,899
Recreation and Culture	25,000			
Roads	70,000	70,000	20,000	50,000
Airports	7,000	7,000		7,000
Administration	19,700	26,677	5,289	21,388
Total Disbursements	179,775	218,751	119,990	98,761
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(4,475)	(42,487)	17,567	60,054
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	4,475	4,475		(4,475)
Transfers To Other Funds	(25,000)	(25,000)	(33,000)	(8,000)
Total Other Adjustments to Cash (Uses)	(20,525)	(20,525)	(33,000)	(12,475)
Net Change in Cash Balances and Cash Equivalents	(25,000)	(63,012)	(15,433)	47,579
Cash Balances and Cash Equivalents - Beginning (Restated)	25,000	63,012	63,013	1
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 47,580	\$ 47,580

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

FOREST FIRE FUND			
	Budgeted Amounts		Actual
	Original	Final	Amounts, (Budgetary Basis)
			Variance with Final Budget Positive (Negative)
RECEIPTS			
Taxes	\$ 2,000	\$ 2,030	\$ 2,030
Total Receipts	2,000	2,030	2,030
DISBURSEMENTS			
Protection to Persons and Property	2,250	2,250	2,250
Administration		30	30
Total Disbursements	2,250	2,280	2,250
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(250)	(250)	(220)
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	250	250	250
Total Other Adjustments to Cash (Uses)	250	250	250
Net Change in Cash Balances and Cash Equivalents			30
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 30

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

PARKS & RECREATION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental Revenue	\$ 25,000	\$ 25,000	\$ 16,671	\$ (8,329)
Miscellaneous	8,800	26,605	26,605	
Interest	100	100	19	(81)
Total Receipts	<u>33,900</u>	<u>51,705</u>	<u>43,295</u>	<u>(8,410)</u>
DISBURSEMENTS				
Recreation and Culture	45,900	51,830	39,228	12,602
Debt Service	20,000	20,000	19,730	270
Administration	58,000	69,875	6,076	63,799
Total Disbursements	<u>123,900</u>	<u>141,705</u>	<u>65,034</u>	<u>76,671</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(90,000)</u>	<u>(90,000)</u>	<u>(21,739)</u>	<u>68,261</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>25,000</u>	<u>25,000</u>	<u>25,500</u>	<u>500</u>
Total Other Adjustments to Cash (Uses)	<u>25,000</u>	<u>25,000</u>	<u>25,500</u>	<u>500</u>
Net Change in Cash Balances and Cash Equivalents	(65,000)	(65,000)	3,761	68,761
Cash Balances and Cash Equivalents - Beginning (Restated)	<u>65,000</u>	<u>65,000</u>	<u>18,277</u>	<u>(46,723)</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 22,038</u>	<u>\$ 22,038</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

911 FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 140,000	\$ 161,848	\$ 161,848	\$
Intergovernmental	129,000	130,120	111,120	(19,000)
Miscellaneous	100	19,485	19,464	(21)
Interest	100	100	40	(60)
Total Receipts	269,200	311,553	292,472	(19,081)
DISBURSEMENTS				
Protection to Persons and Property	277,670	318,084	275,428	42,656
Administration	99,300	105,827	97,526	8,301
Total Disbursements	376,970	423,911	372,954	50,957
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(107,770)	(112,358)	(80,482)	31,876
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	107,770	107,770	85,000	(22,770)
Total Other Adjustments to Cash (Uses)	107,770	107,770	85,000	(22,770)
Net Change in Cash Balances and Cash Equivalents		(4,588)	4,518	9,106
Cash Balances and Cash Equivalents - Beginning		4,588	4,588	
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 9,106	\$ 9,106

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

GREEN RIVER ANIMAL SHELTER FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 3,600	\$ 10,900	\$ 10,760	\$ (140)
Miscellaneous	4,500	8,957	6,801	(2,156)
Total Receipts	8,100	19,857	17,561	(2,296)
DISBURSEMENTS				
General Health and Sanitation	79,815	93,908	93,673	235
Administration	20,950	22,135	20,928	1,207
Total Disbursements	100,765	116,043	114,601	1,442
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(92,665)	(96,186)	(97,040)	(854)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	92,665	92,665	95,500	2,835
Total Other Adjustments to Cash (Uses)	92,665	92,665	95,500	2,835
Net Change in Cash Balances and Cash Equivalents		(3,521)	(1,540)	1,981
Cash Balances and Cash Equivalents - Beginning (Restated)		3,521	3,521	
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 1,981	\$ 1,981

ADAIR COUNTY
NOTES TO SUPPLEMENTARY INFORMATION

June 30, 2013

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 General and Jail Fund

The *Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents-Regulatory Basis* differs from the *Budgetary Comparison Schedules* for the General Fund and Jail Fund, see the reconciliations below:

Road Fund Reconciliation

Total Disbursements - Budgetary Statement	\$ 2,223,434
To Adjust For Financing Obligation Proceeds	200,000
Total Disbursements - Regulatory Statement	<u>\$ 2,423,434</u>
 Total Other Adjustments to Cash (Uses) - Budgetary Statement	 \$ (220,000)
To Adjust For Financing Obligation Proceeds	200,000
Total Other Adjustments to Cash (Uses) - Regulatory Statement	<u>\$ (20,000)</u>

Jail Fund Reconciliation

Total Receipts - Budgetary Statement	\$ 817,528
To Adjust For Transfer From Jail Commissary Fund	(9,000)
Total Receipts - Regulatory Statement	<u>\$ 808,528</u>
 Total Other Adjustments to Cash (Uses) - Budgetary Statement	 \$ 445,782
To Adjust For Transfer From Jail Commissary Fund	9,000
Total Other Adjustments to Cash (Uses) - Regulatory Statement	<u>\$ 454,782</u>

ADAIR COUNTY
SUPPLEMENTARY SCHEDULE
Other Information - Regulatory Basis

For The Year Ended June 30, 2013

ADAIR COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2013

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,136,845	\$	\$	\$ 2,136,845
Buildings and Improvements	16,172,071			16,172,071
Other Equipment	407,813			407,813
Vehicles & Equipment	1,440,209	138,800		1,579,009
Infrastructure	9,374,607	1,023,269		10,397,876
	<hr/>	<hr/>	<hr/>	<hr/>
Total Capital assets	<u>\$ 29,531,545</u>	<u>\$ 1,162,069</u>	<u>\$ 0</u>	<u>\$ 30,693,614</u>

ADAIR COUNTY
NOTES TO OTHER INFORMATION

June 30, 2013

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	\$ 25,000	10-75
Building Improvements	\$ 25,000	10-75
Machinery & 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



PEEROY AND GRAY, PSC

Certified Public Accountants

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The Honorable Michael 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

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 Cash Balances and Cash Equivalents - Regulatory Basis of the Adair County Fiscal Court for the fiscal year ended June 30, 2013, and the related notes to the financial statement and have issued our report thereon dated December 1, 2014. 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 to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing out 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. Given these limitations, during our audit we did identify one deficiency in internal control that we consider to be a material weakness. We consider the deficiency described in the accompanying comments and recommendations as item 2013-02 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. 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 deficiency described in the accompanying comments and recommendations as item 2013-05 to be a significant deficiency.

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 four instances of noncompliance or other matters that are required to be reported under Government Auditing Standards as items 2013-01, 2013-03, 2013-04, and 2013-06.

Former County Jailer's Responses to Comments

The former Adair County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The former 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

December 1, 2014

**ADAIR COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2013

ADAIR COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2013

2013-01 The Jailer Did Not Properly Maintain Accounting Records In The Manner Required By The State Local Finance Officer Policy Manual

During the fiscal year ended June 30, 2013 Receipts and disbursements journals were not maintained for the outside commissary service account. The jailer did not prepare daily cash checkout sheets for any of the funds collected during the fiscal year and deposits were not made daily.

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 include the following:

DAILY CHECK-OUT SHEET - Daily deposits are required. At the end of each business day the Jailer or assigned personnel should separate individual receipts into categories listed on the check-out sheet. The total of each category should be entered on the appropriate space provided. The amount deposited line should equal the amount of money on hand at the end of each day less start-up cash. A maximum of fifty dollars shall be used for start-up for the next business day. All daily detail (deposit form, cash receipts, etc.) should be attached to the form. If the total daily deposit is correct, post to the Jail Commissary Fund Receipts Journal.

JAIL COMMISSARY RECEIPTS JOURNAL - Receipts should be posted to this journal on a daily basis. The total amount category should agree with the amount deposited line on the Daily Check-Out Sheet.

JAIL COMMISSARY DISBURSEMENTS JOURNAL - Each check written must be posted to the proper category listed on the form. Checks should be issued for all expenditures made.

JAIL COMMISSARY SUMMARY AND RECONCILIATION - The year to date summary section of this report will provide a cash balance at anytime 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. Monthly cash reconciliations shall be maintained. This report may be used for the year-end report submitted to county treasurer pursuant to KRS 441.135 (2).

We recommend the jailer comply with the guidelines prescribed by the State Local Finance Officer by maintaining at least the required minimum records. Daily cash checkout sheets should be prepared and deposits should be made intact daily and all refunds to inmates should be made by check. In addition we recommend the Jailer obtain an adequate understanding of the computerized system used for the outside commissary service in order to prepare monthly and annual reports that comply with these minimum requirements. We further recommend checks outstanding over six months be voided and reviewed in order to determine whether they should be reissued.

Former County Jailer Rick Wilson's Response: We will try our best.

Former Judge/Executive Ann Melton's Response: None

ADAIR COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2013
(Continued)

2013-02 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. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The County Treasurer prepares and deposits the receipts, posts to the ledger and prepares reports from these ledgers for submission to the Department for Local Government (DLG), and performs the bank reconciliations. 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 at various times during the fiscal year the Jail Fund, 911 Fund, and GRAS Fund all had negative cash balances.

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.

We also recommend the County Treasurer and County Judge/Executive, prior to signing the checks; compare them against the original invoices. Additionally, we recommend the ledgers maintained by the county treasurer and finance officer be reconciled monthly with documentation of the reconciliation noted.

Former Judge/Executive Ann Melton's Response: None

2013-03 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 not account for encumbrances on the 4th Quarter Financial Report as of June 30, 2013. 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.

Former Judge/Executive Ann Melton's Response: None

ADAIR COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2013
(Continued)

2013-04 The Fiscal Court Should Annually Set And Approve Salaries For All County Employees

During our review of payroll and the fiscal court order book, we noted the Fiscal Court did not set and approve annually the salaries of all county employees in accordance with KRS 64.530(1). KRS 64.530(1) states, "... the fiscal court of each county shall fix the compensation of every county officer and employee except the officers named in KRS 64.535 (County Judge/Executive, Jailer who operates a full service jail, and Sheriff) and the county attorney and jailer."

Due to a lack of adequate segregation of duties, the county employee's salaries were not approved for the year. Not complying with this statute increases the risk of the county paying incorrect wages to an employee.

We recommend that the County Judge Executive's Office annually prepare a list of each employee of the county and include the appropriate hourly rate for hourly employees and monthly or yearly amounts for all salaried employees and present this list to the Fiscal Court for approval.

Former Judge/Executive Ann Melton's Response: None

2013-05 All Cash Transfers Should Be Properly Approved and Recorded

During our test of cash transfers we noted four cash transfers that were not approved by the fiscal court and eight others that were either approved after the fact or in an amount less than transferred.

Due to a lack of adequate segregation of duties, some cash transfers were not properly accounted for. By not properly accounting for cash transfers, there is an increased risk of possibly misstating the county's financial statements.

We recommend that all cash transfers be properly approved by the fiscal court prior to being made and that all transfer in and transfers out be recorded in the proper accounts.

Former Judge/Executive Ann Melton's Response: None

2013-06 The Fiscal Court Should Request Budget Amendments In Accordance With KRS 67.078 And 68.280

During the course of the audit we noted an emergency budget amendment was made in June 2013. However a copy of the amendment signed by the State Local Finance Officer could not be provided to the auditor. Without a signed copy, we are unable to determine if the emergency amendment was properly approved.

Any amendments to a County budget submitted to the State Local Finance Officer for approval on an emergency basis must strictly adhere to the provisions of KRS 67.078 and a photocopy of the fiscal court order naming the emergency must accompany the budget amendment submitted for approval pursuant to KRS 68.280.

We recommend that the Fiscal Court adhere to provisions of KRS 67.078 and KRS 68.280. Furthermore, we recommend the Fiscal Court maintain documentation of each approved amendment to their budget.

Former Judge/Executive Ann Melton's Response: None.

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

ADAIR COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2013**


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
PROGRAM

ADAIR COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2013

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