

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

**For The Fiscal Year Ended  
June 30, 2012**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE ADAIR COUNTY FISCAL COURT**

**June 30, 2012**

The Auditor of Public Accounts has completed the audit of the Adair County Fiscal Court for fiscal year ended June 30, 2012.

We have issued unqualified opinions, based on our audit on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Adair County, Kentucky.

#### **Financial Condition:**

The fiscal court had total net assets of \$13,290,282 as of June 30, 2012. The fiscal court had unrestricted net assets of \$956,453 in its governmental activities as of June 30, 2012, with total net assets of \$13,228,886. In its business-type activities, total net cash and cash equivalents were \$58,031 with total net assets of \$61,396. The fiscal court had total debt principal as of June 30, 2012 of \$12,924,139 with \$570,767 due within the next year.

#### **Report Comments:**

- 2012-01 The Fiscal Court Should Prepare An Accurate Federal Monies Worksheet
- 2012-02 The Jailer Did Not Properly Maintain Accounting Records In the Manner Required By The State Local Finance Officer Policy Manual
- 2012-03 The Jailer Did Not Issue Pre-Numbered Receipts In Accordance With KRS 68.840
- 2012-04 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements

#### **Deposits:**

The fiscal court's deposits as of August 31, 2011 were exposed to custodial risk as follows:

- Uncollateralized and Uninsured \$123,542

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Ann Melton, Adair County Judge/Executive

Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Adair County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Adair County Fiscal Court. Our responsibility is to express opinions on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Adair County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Adair County, Kentucky, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adair County, Kentucky's basic financial statements as a whole. The combining fund financial statements and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance



To the People of Kentucky  
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with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued our report dated July 24, 2013 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:

- 2012-01 The Fiscal Court Should Prepare An Accurate Federal Monies Worksheet
- 2012-02 The Jailer Did Not Properly Maintain Accounting Records In the Manner Required By The State  
Local Finance Officer Policy Manual
- 2012-03 The Jailer Did Not Issue Pre-Numbered Receipts In Accordance With KRS 68.840
- 2012-04 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

July 24, 2013



ADAIR COUNTY OFFICIALS

For The Year Ended June 30, 2012

**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

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**ADAIR COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2012**



**ADAIR COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2012**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,023,800	\$ 58,031	\$ 1,081,831
Assets Held For Resale	235,148		235,148
Total Current Assets	1,258,948	58,031	1,316,979
Noncurrent Assets:			
Hospital Loan Receivable	1,700,000		1,700,000
Capital Assets - Net of Accumulated Depreciation			
Land	2,136,845		2,136,845
Buildings and Land Improvements	14,450,252		14,450,252
Furniture and Other Equipment	113,884		113,884
Vehicles and Equipment	678,073	3,365	681,438
Infrastructure	5,815,023		5,815,023
Total Noncurrent Assets	24,894,077	3,365	24,897,442
Total Assets	26,153,025	61,396	26,214,421
<b>LIABILITIES</b>			
Current Liabilities:			
Bonds Payable	518,009		518,009
Financing Obligations Payable	52,758		52,758
Total Current Liabilities	570,767		570,767
Noncurrent Liabilities:			
Bonds Payable	10,246,459		10,246,459
Financing Obligations Payable	2,106,913		2,106,913
Total Noncurrent Liabilities	12,353,372		12,353,372
Total Liabilities	12,924,139		12,924,139
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	10,269,938	3,365	10,273,303
Restricted For:			
Capital Projects	245,871		245,871
Debt Service	1,700,203		1,700,203
Grant Projects	56,421		56,421
Unrestricted	956,453	58,031	1,014,484
Total Net Assets	\$ 13,228,886	\$ 61,396	\$ 13,290,282

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

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**ADAIR COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2012**

**ADAIR COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,897,531	\$ 972,491	\$ 243,771	\$
Protection to Persons and Property	1,658,476	699,828	199,988	
General Health and Sanitation	228,335	35,037	127,835	
Social Services	10,678		7,979	
Recreation and Culture	45,716			
Roads	1,479,289		1,929,470	
Airports	7,000		7,437	
Other Transportation Facilities	169,006			
Debt Service	479,620		13,023	
Total Governmental Activities	5,975,651	1,707,356	2,529,503	
Business-type Activities:				
Jail Canteen	211,445	222,615		
Total Business-type Activities	211,445	222,615		
Total Primary Government	\$ 6,187,096	\$ 1,929,971	\$ 2,529,503	\$ 0

**General Revenues:**

Taxes:

Real Property Taxes  
Personal Property Taxes  
Motor Vehicle Taxes  
Other Taxes  
TVA In Lieu of Taxes  
Flood Control Receipts  
Excess Fees  
Miscellaneous Revenues  
Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

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



**ADAIR COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2012**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (681,269)	\$	\$ (681,269)
(758,660)		(758,660)
(65,463)		(65,463)
(2,699)		(2,699)
(45,716)		(45,716)
450,181		450,181
437		437
(169,006)		(169,006)
(466,597)		(466,597)
(1,738,792)		(1,738,792)
	11,170	11,170
	11,170	11,170
(1,738,792)	11,170	(1,727,622)
607,004		607,004
128,482		128,482
97,801		97,801
106,846		106,846
38,918		38,918
8,961		8,961
185,326		185,326
1,096,299	880	1,097,179
2,989	116	3,105
2,272,626	996	2,273,622
533,834	12,166	546,000
12,695,052	49,230	12,744,282
\$ 13,228,886	\$ 61,396	\$ 13,290,282

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

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**ADAIR COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2012**

**ADAIR COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2012**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Construction Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 610,375	\$ 125,210	\$ 37,553	\$ 245,871
Due From Other Funds		37,038		
Total Assets	<u>610,375</u>	<u>162,248</u>	<u>37,553</u>	<u>245,871</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due To Other Funds	37,038			
Total Liabilities	<u>37,038</u>			
<b>FUND BALANCES</b>				
<b>Restricted For:</b>				
General Health and Sanitation	43,175	50,284		
Debt Service				
Capital Projects				245,871
<b>Assigned To:</b>				
Recreation and Culture	18,277			
Protection to Persons and Property			37,553	
General Health and Sanitation	3,521			
Roads		111,964		
<b>Unassigned</b>	<u>508,364</u>			
Total Fund Balances	<u>573,337</u>	<u>162,248</u>	<u>37,553</u>	<u>245,871</u>
Total Liabilities and Fund Balances	<u>\$ 610,375</u>	<u>\$ 162,248</u>	<u>\$ 37,553</u>	<u>\$ 245,871</u>

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

**ADAIR COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2012**  
**(Continued)**

Public Properties Corporation Bond Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 203	\$ 4,588	\$ 1,023,800
		37,038
203	4,588	1,060,838
		37,038
		37,038
		93,459
203		203
		245,871
		18,277
	4,588	42,141
		3,521
		111,964
		508,364
203	4,588	1,023,800
\$ 203	\$ 4,588	\$ 1,060,838

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

**ADAIR COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2012**  
**(Continued)**

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 1,023,800
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	29,520,081
Accumulated Depreciation	(6,326,004)
Assets Held For Resale	235,148
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(2,159,671)
Bonds	(10,764,468)
Long-term Receivables	<u>1,700,000</u>
Net Assets Of Governmental Activities	<u><u>\$ 13,228,886</u></u>

**ADAIR COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

**ADAIR COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Construction Fund</b>
<b>REVENUES</b>				
Taxes	\$ 938,013	\$	\$	\$
In Lieu Tax Payments	47,879			
Excess Fees	185,326			
Licenses and Permits	35,615			
Intergovernmental	477,668	1,869,757	658,158	15
Charges for Services			91,629	
Miscellaneous	933,096	7,983	73,302	
Interest	2,096	844		
Total Revenues	<u>2,619,693</u>	<u>1,878,584</u>	<u>823,089</u>	<u>15</u>
<b>EXPENDITURES</b>				
General Government	630,797	40,389		
Protection to Persons and Property	61,934		959,237	
General Health and Sanitation	211,790	16,700		
Social Services	7,510			
Recreation and Culture	43,558			
Roads	96,152	1,653,533		
Airports	7,000			
Other Transportation Facilities	169,006			
Debt Service:				
Principal	514,151	215,404	26,339	
Interest	26,050	5,595	6,507	
Capital Projects				80,749
Administration	2,692,306	136,231	260,780	
Total Expenditures	<u>4,460,254</u>	<u>2,067,852</u>	<u>1,252,863</u>	<u>80,749</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,840,561)</u>	<u>(189,268)</u>	<u>(429,774)</u>	<u>(80,734)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets		223,200		
Short Term Debt Proceeds	400,000			
Financing Obligation Proceeds	1,700,000	200,000		
Transfers From Other Funds	220,435		480,000	
Transfers To Other Funds	(542,107)	(160,000)	(60,000)	
Total Other Financing Sources (Uses)	<u>1,778,328</u>	<u>263,200</u>	<u>420,000</u>	
Net Change in Fund Balances	(62,233)	73,932	(9,774)	(80,734)
Fund Balances - Beginning (Restated)	635,570	88,316	47,327	326,605
Fund Balances - Ending	<u>\$ 573,337</u>	<u>\$ 162,248</u>	<u>\$ 37,553</u>	<u>\$ 245,871</u>

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



**ADAIR COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2012**  
**(Continued)**

<b>Public Properties Corporation Bond Fund</b>	<b>Non- Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$	\$ 132,663	\$ 1,070,676
		47,879
		185,326
		35,615
918,469	136,489	4,060,556
		91,629
	435	1,014,816
	48	2,988
<u>918,469</u>	<u>269,635</u>	<u>6,509,485</u>
		671,186
	265,970	1,287,141
		228,490
		7,510
		43,558
		1,749,685
		7,000
		169,006
475,000		1,230,894
441,469		479,621
		80,749
<u>2,000</u>	<u>81,064</u>	<u>3,172,381</u>
<u>918,469</u>	<u>347,034</u>	<u>9,127,221</u>
	(77,399)	(2,617,736)
		223,200
		400,000
		1,900,000
	62,107	762,542
	(435)	(762,542)
	<u>61,672</u>	<u>2,523,200</u>
	(15,727)	(94,536)
203	20,315	1,118,336
<u>\$ 203</u>	<u>\$ 4,588</u>	<u>\$ 1,023,800</u>

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

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**ADAIR COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**



**ADAIR COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ (94,536)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,102,657
Depreciation Expense	(1,111,708)
Disposal of Asset Held For Resale	(228,622)
Purchase of Asset Held For Resale	235,148
Notes Receivable Loaned in Current Period	1,700,000

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds	(1,900,000)
Financing Obligations Principal Payments	329,556
Bond Principal Payments	501,339

Change in Net Assets of Governmental Activities	\$ 533,834
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**ADAIR COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2012**





**ADAIR COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2012**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 58,031
Total Current Assets	<u>58,031</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	11,464
Less Accumulated Depreciation	<u>(8,099)</u>
Total Noncurrent Assets	<u>3,365</u>
Total Assets	<u>61,396</u>
<b>Net Assets</b>	
Invested in Capital Assets,	
Net of Related Debt	3,365
Unrestricted	<u>58,031</u>
Total Net Assets	<u><u>\$ 61,396</u></u>

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

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**ADAIR COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**



**ADAIR COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 218,920
Total Operating Revenues	<u>218,920</u>
<b>Operating Expenses</b>	
Cost of Sales	44,072
Educational and Recreational	9,051
Payments For Contracted Personnel	58
Sales Tax	1,492
Depreciation	536
Miscellaneous	1,279
Total Operating Expenses	<u>56,488</u>
Operating Income (Loss)	<u>162,432</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest Income	116
Inmate Pay From State	3,695
Miscellaneous	880
Payment of Monies Collected For Others	(113,510)
Inmate Refunds	<u>(41,447)</u>
Total Nonoperating Revenues (Expenses)	<u>(150,266)</u>
Change In Net Assets	12,166
Total Net Assets - Beginning (Restated)	<u>49,230</u>
Total Net Assets - Ending	<u><u>\$ 61,396</u></u>

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

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**ADAIR COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**





**ADAIR COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2012**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Cash Receipts From Customers	\$ 218,920
Cash Payments to Vendors For Goods and Services	(44,072)
Cash Payments For Educational and Recreational Goods and Services	(9,051)
Cash Payments For Contracted Personnel	(58)
Cash Payments For Sales Tax	(1,492)
Cash Payments For Miscellaneous	(1,279)
Net Cash Provided (Used) By Operating Activities	<u>162,968</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Inmate Pay From State	3,695
Miscellaneous Receipts	880
Payment of Monies Collected For Others	(113,510)
Inmate Refunds on Accounts	(41,447)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(150,382)</u>
<b>Cash Flows From Investing Activities</b>	
Interest Earned	<u>116</u>
Net Cash Provided (Used) By Investing Activities	<u>116</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,702
Cash and Cash Equivalents - July 1, 2011 (Restated)	<u>45,329</u>
Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 58,031</u></u>

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

**ADAIR COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2012**  
**(Continued)**

	<b>Business-Type Activities - Enterprise Fund</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	<b>Jail Canteen Fund</b>
Operating Income (Loss)	\$ 162,432
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>536</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 162,968</u></u>

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

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**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Adair County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Unit**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Adair County Public Properties Corporation**

The Adair County Fiscal Court appoints a voting majority of the Public Properties Corporation's (PPC) governing board. In addition the fiscal court is financially accountable and legally obligated for the debt of the PPC. Financial information for the PPC is blended within Adair County's financial statements. All activities of the PPC are accounted for within the governmental funds.

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. 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 statements of Adair County, Kentucky.

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

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

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.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental 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 revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Jail Fund** - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue 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 expenditures separately from the General Fund.

**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**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

The primary government also has the following non-major funds: Forest Fire Fund and Emergency 911 Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Forest Fire Fund, and Emergency 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

**Capital Projects Fund:**

The Public Properties Corporation Construction Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities and purchase of capital assets.

**Debt Service Fund:**

The Public Properties Corporation Bond Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements on Interpretations issued after November 30, 1989 unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements on Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen 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 Canteen Fund.

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. 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).

**F. 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 in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

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

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize 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 expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.



**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Treasurer to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

**I. 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 expenditures 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.

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information (Continued)**

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. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenditures of these funds.

The Public Properties Corporation Construction Fund and the Public Properties Corporation Bond Fund were not budgeted by the treasurer. The bond payments are made by the Administrative Office of the Courts and the Department of Local Government does not require that these funds be budgeted since they are part of a blended component unit.

**J. Joint Ventures**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Adair County Fiscal Court: Parks and Recreation Board is a joint venture with the City of Columbia.

**Note 2. Deposits**

The primary government 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). On August 31, 2011, the government's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the government's deposits in accordance with the collateral security agreement.

- Uncollateralized and Uninsured                      \$123,542

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**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, 2012.

**B. Changes In Receivables**

Receivable activity of the primary government for the year ended June 30, 2012, was as follows:

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

**Note 4. Assets Held For Resale**

Two dump trucks with an acquisition cost of \$235,148 are included on the Statement of Net Assets under the financial caption Assets Held For Resale. These trucks are not included in capital assets and are not depreciated, as Adair County does not intend to hold the assets beyond one year. In fiscal year 2012, the fiscal court disposed of assets held for resale with a cost of \$228,622.

**Note 5. Interfund Transfers**

	General Fund	Road Fund	Jail Fund	Non-Major Governmental Funds	Total Transfers In
General Fund	\$	\$ 160,000	\$ 60,000	\$ 435	\$ 220,435
Jail Fund	480,000				480,000
Non-Major	62,107				62,107
Total Transfers Out	\$ 542,107	\$ 160,000	\$ 60,000	\$ 435	\$ 762,542

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 6. Capital Assets**

Capital asset activity for the year ended June 30, 2012 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,056,096	\$ 80,749	\$	\$ 2,136,845
Total Capital Assets Not Being Depreciated	2,056,096	80,749		2,136,845
Capital Assets, Being Depreciated:				
Buildings and Land Improvements	16,172,071			16,172,071
Furniture and Office Equipment	407,813			407,813
Vehicles and Equipment	1,241,750	186,995		1,428,745
Infrastructure	8,539,694	834,913		9,374,607
Total Capital Assets Being Depreciated	26,361,328	1,021,908		27,383,236
Less Accumulated Depreciation For:				
Buildings and Land Improvements	(1,468,325)	(253,494)		(1,721,819)
Furniture and Office Equipment	(270,506)	(23,423)		(293,929)
Vehicles and Equipment	(638,395)	(112,278)		(750,673)
Infrastructure	(2,837,070)	(722,514)		(3,559,584)
Total Accumulated Depreciation	(5,214,296)	(1,111,709)		(6,326,005)
Total Capital Assets, Being Depreciated, Net	21,147,032	(89,801)		21,057,231
Governmental Activities Capital Assets, Net	<u>\$ 23,203,128</u>	<u>\$ (9,052)</u>	<u>\$ 0</u>	<u>\$ 23,194,076</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 260,614
Protection to Persons and Property	29,491
General Health and Sanitation	14,297
Recreation and Culture	3,168
Roads, Including Depreciation of General Infrastructure Assets	<u>804,139</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,111,709</u>

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 6. Capital Assets (Continued)**

Capital asset activity for Business-Type Activities for the year ended June 30, 2012 was as follows:

<u>Business-Type Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 11,464	\$	\$	\$ 11,464
Total Capital Assets Being Depreciated	11,464			11,464
Less Accumulated Depreciation For:				
Vehicles and Equipment	(7,563)	(536)		(8,099)
Total Accumulated Depreciation	(7,563)	(536)		(8,099)
Total Capital Assets, Being Depreciated, Net	3,901	(536)		3,365
Business-Type Activities Capital Assets, Net	<u>\$ 3,901</u>	<u>\$ (536)</u>	<u>\$ 0</u>	<u>\$ 3,365</u>

Depreciation expense was charged to functions of the Business-Type Activities as follows:

<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 536</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 536</u>

**Note 7. Short Term Debt**

**Hospital Loan**

On September 9, 2011, the Adair County fiscal court borrowed \$400,000 on a short term note from a local bank at an interest rate of two and one half percent (2.5%). The balance of the note was due on December 14, 2011. These funds were loaned by the county to the Westlake Regional Hospital for operating expenses. On November 4, 2011, the hospital repaid the principal balance of \$400,000 plus interest of \$1,556 to the county. The county then paid the note off on November 9, 2011.

**Changes In Short-term Liabilities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Note Payable	\$	\$ 400,000	\$ 400,000	\$	\$
Governmental Activities Short-term Liabilities	<u>\$ 0</u>	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ 0</u>	<u>\$ 0</u>

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**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, 2012, the remaining principal outstanding was \$89,468. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 28,009	\$ 4,784
2014	29,785	2,952
2015	31,674	1,004
Totals	<u>\$ 89,468</u>	<u>\$ 8,740</u>

**B. Courthouse Annex Building**

In January 1992, Adair County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) to finance the purchase of land and the construction of a courthouse annex building. The agreement required payments to be made monthly until January 2012. As of June 30, 2012, the principal balance was paid in full.

**C. Road Paving**

In October 2001, Adair County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) to finance a road-paving project. The lease required monthly payments to be paid until November 20, 2011. As of June 30, 2012, the principal balance was paid in full.

**D. Grader**

In May 2007, Adair County entered into an agreement with Kentucky Association Of Counties Leasing Trust (KACoLT) for financing to purchase a grader. As of June 30, 2012, the principal balance was paid in full.

**E. 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, 2012 was \$43,280. Future principal and interest requirements are:

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 8. Long-term Debt (Continued)**

**E. Land (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2103	\$ 6,902	\$ 1,795
2014	7,201	1,519
2015	7,513	1,231
2016	7,838	930
2017	8,178	618
2018	5,648	231
Totals	<u>\$ 43,280</u>	<u>\$ 6,324</u>

**F. 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, 2012, the principal balance was \$10,675,000. Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 490,000	\$ 424,581
2014	505,000	406,538
2015	525,000	387,225
2016	545,000	367,162
2017	570,000	345,544
2018-2022	3,205,000	1,360,619
2023-2027	3,940,000	634,294
2028	895,000	19,578
Totals	<u>\$ 10,675,000</u>	<u>\$ 3,945,541</u>

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 8. Long-term Debt (Continued)**

**G. 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, 2012 was \$47,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 15,000	\$ 1,957
2014	16,000	1,303
2015	16,000	530
Totals	<u>\$ 47,000</u>	<u>\$ 3,790</u>

**H. Mac Trucks**

In April 2011, 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 36 months. Principal payments were required annually and interest payments were due monthly. As of June 30, 2012, the principal balance was paid in full.

**I. 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, 2012 was \$135,391. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 13,856	\$ 5,874
2014	14,174	5,237
2015	14,500	4,585
2016	14,828	3,929
2017	15,174	3,237
2018 - 2021	62,859	5,812
Totals	<u>\$ 135,391</u>	<u>\$ 28,674</u>



**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 8. Long-term Debt (Continued)**

**J. 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, 2012 was \$34,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 17,000	\$ 615
2014	17,000	182
Totals	<u>\$ 34,000</u>	<u>\$ 797</u>

**K. 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, 2012 was \$200,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 200,000	\$ 9,227
2014	200,000	3,868
Totals	<u>\$ 200,000</u>	<u>\$ 13,095</u>

**L. 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, 2012 was \$1,700,000. Future principal and interest requirements are:

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 8. Long-term Debt (Continued)**

**K. Hospital Equipment (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2013	\$	\$ 78,426
2014	1,700,000	71,765
Totals	<u>\$ 1,700,000</u>	<u>\$ 150,191</u>

**L. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 11,265,807	\$	\$ 501,339	\$10,764,468	\$ 518,009
Financing Obligations	<u>589,227</u>	<u>1,900,000</u>	<u>329,556</u>	<u>2,159,671</u>	<u>52,758</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 11,855,034</u>	<u>\$ 1,900,000</u>	<u>\$ 830,895</u>	<u>\$12,924,139</u>	<u>\$ 570,767</u>

**Note 9. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$30,074 in interest on financing obligations, \$447,976 in interest on bonds and notes, \$1,556 in interest on short term debt and \$14 in late fees on financing obligations.

**Note 10. 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 18.96 percent.

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 10. 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 35.76 percent.

The county's contribution for FY 2010 was \$357,323, FY 2011 was \$420,471, and FY 2012 was \$429,774.

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:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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 STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 11. 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 12. Insurance**

For the fiscal year ended June 30, 2012, 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 13. Subsequent Events**

**A. Dump Trucks**

On April 15, 2013, the Adair County Fiscal Court entered into a lease agreement in the amount of \$200,000 with the Kentucky Association of Counties Least Trust for the purchase of two Mac Dump Trucks. Terms of the agreement require monthly interest payments for 18 months with the principal balance due on October 20, 2014.

**B. Hospital Loan**

On August 23, 2012, the Adair County Fiscal Court borrowed a total of \$1,500,000 from two local banks. These funds were loaned to the Adair County Public Hospital District Corporation, Incorporated, D/B/A Westlake Regional Hospital (the hospital) for the payment of debts of the hospital and hospital operating expenses. The principal balance plus accrued interest was repaid to Adair County by the hospital on November 30, 2012 and the county paid the bank loans in full on December 11, 2012.

**C. Hospital Bankruptcy**

On July 31, 2013, the Adair County Public Hospital District Corporation, Incorporated, D/B/A Westlake Regional Hospital (the hospital) filed a petition for bankruptcy under Chapter 9 of the Bankruptcy Code. As of that date the hospital owed the fiscal court the principal amount of \$1,700,000 plus future applicable interest (See Note 8. L.)

**ADAIR COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**  
**(Continued)**

**Note 14. Related Party Transactions**

During the fiscal year ended June 30, 2012, the fiscal court paid a total of \$16,606 to Columbia Tire & Recap. Columbia Tire and Recap was owned by the County Judge/Executive's father who is now deceased.

**Note 15. Prior Period Adjustments**

The beginning net asset balance for governmental funds was increased by \$28,622 to reflect the correct amounts paid for Mac Trucks that were purchased in the prior year and held for resale. The beginning net asset balance and beginning cash balance for the jail commissary fund and business-type activities were increased by \$48 due to prior year outstanding checks being voided. The beginning fund balance for the general fund increased by \$58,445 and the beginning fund balance for non-major funds decreased by \$58,445 due to the LGEA fund being combined with the General Fund in the fiscal year 2012 due to GASB 54 presentation requirements. The LGEA fund was presented as a non-major fund in fiscal year 2011.

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**ADAIR COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Supplementary Information**

**June 30, 2012**





**ADAIR COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Supplementary Information**

**June 30, 2012**

	<b>Forest Fire Fund</b>	<b>Emergency 911 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$	\$ 4,588	\$ 4,588
Total Assets		4,588	4,588
<b>FUND BALANCES</b>			
<b>Assigned To:</b>			
Protection to Persons and Property		4,588	4,588
Total Fund Balances	\$	\$ 4,588	\$ 4,588

The accompanying notes are an integral part of the financial statements

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**ADAIR COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Supplementary Information**

**For The Year Ended June 30, 2012**



**ADAIR COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Supplementary Information**

**For The Year Ended June 30, 2012**

	<b>Forest Fire Fund</b>	<b>Emergency 911 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$ 2,015	\$ 130,648	\$ 132,663
Intergovernmental		136,489	136,489
Miscellaneous		435	435
Interest		48	48
Total Revenues	<u>2,015</u>	<u>267,620</u>	<u>269,635</u>
<b>EXPENDITURES</b>			
Protection to Persons and Property	2,250	263,720	265,970
Administration		81,064	81,064
Total Expenditures	<u>2,250</u>	<u>344,784</u>	<u>347,034</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(235)</u>	<u>(77,164)</u>	<u>(77,399)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers From Other Funds	215	61,892	62,107
Transfers To Other Funds		(435)	(435)
Total Other Financing Sources (Uses)	<u>215</u>	<u>61,457</u>	<u>61,672</u>
Net Change in Fund Balances	(20)	(15,707)	(15,727)
Fund Balances - Beginning (Restated)	20	20,295	20,315
Fund Balances - Ending	<u><u>\$ 0</u></u>	<u><u>\$ 4,588</u></u>	<u><u>\$ 4,588</u></u>

The accompanying notes are an integral part of the financial statements

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**ADAIR COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**

**For The Year Ended June 30, 2012**





**ADAIR COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**

**For The Year Ended June 30, 2012**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 872,000	\$ 955,581	\$ 938,013	\$ (17,568)
In Lieu Tax Payments	23,000	23,961	8,961	(15,000)
Excess Fees	163,528	185,326	185,326	
Licenses and Permits	32,650	43,644	43,644	
Intergovernmental Revenue	186,320	291,713	287,639	(4,074)
Miscellaneous	356,300	915,395	919,923	4,528
Interest	2,300	2,699	1,716	(983)
Total Revenues	1,636,098	2,418,319	2,385,222	(33,097)
<b>EXPENDITURES</b>				
General Government	600,105	676,585	604,288	72,297
Protection to Persons and Property	31,200	59,768	57,189	2,579
General Health and Sanitation	43,912	102,195	93,483	8,712
Social Services	1,000	1,000		1,000
Recreation and Culture	7,600	7,600	6,255	1,345
Other Transportation Facilities	120,000	169,006	169,006	
Debt Service	97,500	909,574	909,574	
Administration	553,413	2,473,829	2,244,932	228,897
Total Expenditures	1,454,730	4,399,557	4,084,727	314,830
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	181,368	(1,981,238)	(1,699,505)	281,733
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds		2,100,000	2,100,000	
Transfers From Other Funds	204,607	204,607	258,918	54,311
Transfers To Other Funds	(835,975)	(835,975)	(646,455)	189,520
Total Other Financing Sources (Uses)	(631,368)	1,468,632	1,712,463	243,831
Net Changes in Fund Balance	(450,000)	(512,606)	12,958	525,564
Fund Balance - Beginning	450,000	512,606	512,606	
Fund Balance - Ending	\$ 0	\$ 0	\$ 525,564	\$ 525,564

**ADAIR COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**  
**For The Year Ended June 30, 2012**  
**(Continued)**

<b>ROAD FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,363,961	\$ 1,877,316	\$ 1,832,719	\$ (44,597)
Charges for Services	194,000	223,200	223,200	
Miscellaneous	4,500	46,466	46,901	435
Interest	2,000	2,000	844	(1,156)
Total Revenues	1,564,461	2,148,982	2,103,664	(45,318)
<b>EXPENDITURES</b>				
General Government	41,200	41,200	40,389	811
General Health and Sanitation	30,000	30,000	16,700	13,300
Roads	1,142,850	1,650,107	1,418,385	231,722
Debt Service	219,700	221,094	220,999	95
Administration	155,850	245,036	136,231	108,805
Total Expenditures	1,589,600	2,187,437	1,832,704	354,733
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(25,139)	(38,455)	270,960	309,415
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	129,746	129,746		(129,746)
Transfers To Other Funds	(179,607)	(179,607)	(198,918)	(19,311)
Total Other Financing Sources (Uses)	(49,861)	(49,861)	(198,918)	(149,057)
Net Changes in Fund Balance	(75,000)	(88,316)	72,042	160,358
Fund Balance - Beginning	75,000	88,316	88,316	
Fund Balance - Ending	\$ 0	\$ 0	\$ 160,358	\$ 160,358

**ADAIR COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**  
**For The Year Ended June 30, 2012**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 702,384	\$ 757,068	\$ 658,158	\$ (98,910)
Charges for Services	108,500	136,345	91,629	(44,716)
Miscellaneous	60,100	73,848	73,302	(546)
Total Revenues	870,984	967,261	823,089	(144,172)
<b>EXPENDITURES</b>				
Protection to Persons and Property	966,321	1,035,659	959,237	76,422
Debt Service	32,847	32,847	32,846	1
Administration	292,250	366,516	260,780	105,736
Total Expenditures	1,291,418	1,435,022	1,252,863	182,159
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(420,434)	(467,761)	(429,774)	37,987
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	420,434	420,434	420,000	(434)
Total Other Financing Sources (Uses)	420,434	420,434	420,000	(434)
Net Changes in Fund Balance		(47,327)	(9,774)	37,553
Fund Balance - Beginning		47,327	47,327	
Fund Balance - Ending	\$ 0	\$ 0	\$ 37,553	\$ 37,553

**ADAIR COUNTY**  
**NOTES TO OTHER INFORMATION**

**June 30, 2012**

**Note 1. 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 expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of Budgetary Comparison Information To Statement Of Revenues, Expenditures, And Changes In Fund Balances – Governmental Funds-Modified Cash Basis**

Following is a summary of adjustments that convert the cash basis budgetary comparison information to the modified cash basis of accounting in the Statement of Revenues, Expenditures, and Changes in Fund Balances:

**General Fund**

Total Revenues-Budgetary Basis	\$ 2,385,222
To adjust for LGEA Fund Revenues	200,834
To adjust for Parks & Recreation Fund Revenues	13,009
To adjust for Green River Animal Shelter Fund Revenues	18,748
To adjust for Road Fund money deposited to General Fund in error	(37,038)
To adjust for General Fund money deposited to Road Fund in error	<u>38,918</u>
Total Revenues-Modified Cash Basis	<u><u>\$ 2,619,693</u></u>
Total Expenditures-Budgetary Basis	\$ 4,084,727
To adjust for LGEA Fund Expenditures	196,266
To adjust for Parks & Recreation Fund Expenditures	57,831
To adjust for Green River Animal Shelter Fund Expenditures	<u>121,430</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 4,460,254</u></u>
Total Other Financing Sources and Uses-Budgetary Basis	\$ 1,712,463
To adjust for Green River Animal Shelter Fund Transfers In	435
To eliminate transfers to Green River Animal Shelter Fund	116,240
To adjust for deposit error posted as Transfer In	(38,918)
To adjust for transfers out of Green River Animal Shelter Fund	<u>(11,892)</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u><u>\$ 1,778,328</u></u>

**ADAIR COUNTY**  
**NOTES TO OTHER INFORMATION**  
**June 30, 2012**  
**(Continued)**

**Note 2. Reconciliation of Budgetary Comparison Information To Statement Of Revenues, Expenditures, And Changes In Fund Balances – Governmental Funds-Modified Cash Basis**  
**(Continued)**

**General Fund (Continued)**

Total Fund Balance-Beginning-Budgetary Basis	\$ 512,606
To adjust for LGEA Fund Beginning Balance	58,445
To adjust for Parks & Recreation Fund Beginning Balance	63,099
To adjust for Green River Animal Shelter Fund Beginning Balance	<u>1,420</u>
Total Fund Balance-Beginning-Modified Cash Basis	<u><u>\$ 635,570</u></u>
Total Fund Balance-Ending-Budgetary Basis	\$ 525,564
To adjust for LGEA Fund Ending Balance	63,013
To adjust for Parks & Recreation Fund Ending Balance	18,277
To adjust for Green River Animal Shelter Fund Ending Balance	3,521
To adjust for amount due to Road Fund	<u>(37,038)</u>
Total Fund Balance-Ending-Modified Cash Basis	<u><u>\$ 573,337</u></u>

**Road Fund**

Total Revenues-Budgetary Basis	\$ 2,103,664
To adjust for Sale of Assets Held For Resale reclassified to Other Financing Resources	(223,200)
To adjust for Road Fund money deposited to General Fund in error	37,038
To adjust for General Fund money deposited to Road Fund in error	<u>(38,918)</u>
Total Revenues-Modified Cash Basis	<u><u>\$ 1,878,584</u></u>
Total Expenditures-Budgetary Basis	1,832,704
To adjust for purchase of assets held for resale not posted	<u>235,148</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 2,067,852</u></u>
Total Other Financing Sources and Uses-Budgetary Basis	\$ (198,918)
To adjust for deposit error posted as Transfer Out	38,918
To adjust for Sale of Assets Held For Resale reclassified to Other Financing Resources	223,200
To adjust for Financing Obligation Proceeds not posted	<u>200,000</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u><u>\$ 263,200</u></u>

**ADAIR COUNTY**  
**NOTES TO OTHER INFORMATION**  
**June 30, 2012**  
**(Continued)**

**Note 2. Reconciliation of Budgetary Comparison Information To Statement Of Revenues, Expenditures, And Changes In Fund Balances – Governmental Funds-Modified Cash Basis**  
**(Continued)**

**Road Fund (Continued)**

Total Fund Balance-Ending-Budgetary Basis	\$ 160,358
To adjust for Financing Obligation Proceeds not posted	200,000
To adjust for purchase of assets held for resale not posted	(235,148)
To adjust for amount Due From General Fund	<u>37,038</u>
Total Fund Balance-Ending-Modified Cash Basis	<u><u>\$ 162,248</u></u>

**Jail Fund**

Total Other Financing Sources and Uses-Budgetary Basis	\$ 420,000
To adjust for Transfer Out posted as a negative Transfer In	60,000
To adjust for Transfer Out not posted	<u>(60,000)</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u><u>\$ 420,000</u></u>

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







**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Ann Melton, 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 Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Adair County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated July 24, 2013. Adair County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit 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.

**Internal Control Over Financial Reporting**

Management of the Adair County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Adair County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Adair County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Adair County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2012-04 to be a material weakness.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Adair County's financial statements as of and for the year ended June 30, 2012, are 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 2012-01, 2012-02, and 2012-03.

The Adair County Judge/Executive's and the County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

July 24, 2013

**ADAIR COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2012**



## ADAIR COUNTY COMMENTS AND RECOMMENDATIONS

**Fiscal Year Ended June 30, 2012**

### STATE LAWS AND REGULATIONS

#### 2012-01 The Fiscal Court Should Prepare An Accurate Federal Monies Worksheet

The County did not prepare an accurate Schedule of Expenditures of Federal Awards for fiscal year ended June 30, 2012 in accordance with OMB Circular A-133. During fiscal year ended June 30, 2012, a single audit was required if federal expenditures exceeded \$500,000. OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, Section 310(B) requires the auditee to prepare a schedule of expenditures of federal awards covered by the auditee's financial statements. At a minimum, the schedule should include the following, if applicable.

- A listing of individual Federal programs by Federal agency.
- For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- Provide total Federal awards expended for each individual Federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.
- Includes notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year-end. While not required, it is preferable to present this information in the schedule.

Due to a lack of adequate segregation of duties, auditors were not provided an accurate federal monies worksheet. Not complying with this increases the risk of possibly misstating the county's financial statements.

We recommend that the County ensure that a complete and accurate Federal Monies Worksheet is prepared.

*County Judge/Executive Ann Melton's Response: No Response.*

*County Treasurer Barry Corbin's Response: I understood it was only to be completed if was \$500,000 or more.*

#### 2012-02 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, 2012 the jailer maintained three different bank accounts for the commissary fund. These included the original jail commissary account; a revolving account which was used to account for money's collected for others from July 1, 2011 through December 16, 2011, and an account that was opened in November 2011 to facilitate the use of an outside commissary service. Receipts and disbursements journals were not maintained for the revolving account and although computerized records were maintained for the outside commissary service account, the jailer and his bookkeeper did not have a sufficient understanding of the system to print out detailed receipts and disbursements ledgers for the auditor's use.

**ADAIR COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2012**  
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2012-02    The Jailer Did Not Properly Maintain Accounting Records In The Manner Required By The  
State Local Finance Officer Policy Manual (Continued)

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We noted there are numerous outstanding checks over six months old. 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. In addition, cash refunds totaling \$2,352 were made to inmates.

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.

**ADAIR COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2012**  
**(Continued)**

STATE LAWS AND REGULATIONS (Continued)

2012-02    The Jailer Did Not Properly Maintain Accounting Records In The Manner Required By The  
 State Local Finance Officer Policy Manual (Continued)

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*County Jailer Rick Wilson's Response: During the audit year FY 11/12 we experienced the transition from a manual process to an electronic moneyless system which uses kiosks. This was implemented because of recommendations of the prior year audit. We phased out the revolving account after Swanson Services was started in November 2011. The Swanson Company assured us that the most up to date accounting practices are in line with acceptable accounting practices. Receipts are received by telephone, internet, and via public use kiosk in our lobby of the jail. The funds from the kiosk in the lobby are unloaded usually one time per week by a representative of the Swanson Company. The knowledge of certain detailed reports exceeded our ability but the reports requested were provided to the auditor in a timely manner after consulting a Swanson Services Manager.*

*Due to a change in KRS 441.137 which became effective 7/12/12 concerning the proper procedure to void checks older than 6 months old we did not have a clear understanding of the proper procedure to close out these outstanding checks. From this point these will be properly handled.*

*We will work with the Swanson Company to comply with the required records and expertise in producing these reports.*

2012-03    The Jailer Did Not Issue Pre-Numbered Receipts In Accordance With KRS 68.840

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For the period of July 1, 2011 through November 30, 2011, the Jailer did not issue pre-numbered three part receipts forms as required by KRS 68.840. During this time period, the jailer issued two part receipts which were not pre-numbered. After November 30, 2011 the Jailer started using a computer system which generates receipts in numerical sequence. This system will print as many copies of the receipts as requested. However the jailer did not print out copies of the receipts issued and attach them to a daily cash check-out sheet or deposit record as required.

We recommend the jailer comply with KRS 68.840 by printing three copies of each pre-numbered receipt. One should be given to the payor, one should be attached in sequential order to a daily cash checkout sheet or deposit record and one copy kept on file. All voided receipts should be so marked and copies one and two kept in order with the cash check- out sheet and the third kept on file.

*County Jailer Rick Wilson's Response: These receipts were to be scheduled to implement after the existing supply of duplicate receipts were exhausted. During this time we contracted with Swanson Services which provided an unlimited number of receipts produced electronically if needed. Now when we complete the daily cash check-out sheet we will attach the receipt to the log. Provide one receipt to the payor and keep one in the computer data file.*

**ADAIR COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2012**  
**(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESS

2012-04 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements

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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 several instances where receipts and disbursements were posted to incorrect account codes. We have prepared a schedule of proposed audit adjustments for review.

Also due to the lack of an adequate segregation of duties, we noted that at various times during the fiscal year the General Fund, Jail Fund, 911 Fund, and GRAS Fund all had negative cash balances.

On October 28, 2011 the General Fund was overdrawn by \$26,533. On June 11, 2012 the Jail Fund was overdrawn by \$22,391, and on September 2, 2011 and June 18, 2012 the 911 Fund and the GRAS Fund were overdrawn by \$5,035 and \$219 respectively. These overdrafts could potentially result in overdraft charges from the bank which would not be an efficient use of taxpayer dollars.

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 a 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.

*County Judge/Executive Ann Melton's Response: No Response.*

*County Treasurer Barry Corbin's Response: Difficult to do fully do to limited staff.*



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

**ADAIR COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2012**



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

For The Fiscal Year Ended June 30, 2012

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

A handwritten signature in cursive script, appearing to read "Anna Milton", written over a horizontal line.

County Judge/Executive

A handwritten signature in cursive script, appearing to read "Ray", written over a horizontal line.

County Treasurer

