

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

**For The Fiscal Year Ended
June 30, 2017**



PEERCY AND GRAY, PSC

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To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Gale Cowan, Adair County Judge/Executive

Honorable Michael Lee Stephens, Former Adair County Judge/Executive

Members of the Adair County Fiscal Court

Independent Auditors' Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Adair County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise Adair County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditors' Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Adair County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Adair County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2019 on our consideration of the Adair County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Adair County Fiscal Court's internal control over financial reporting and compliance.

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

- 2017-001 The Fiscal Court Failed To Implement Sufficient Controls Over Disbursements
- 2017-002 The Fiscal Court Did Not Maintain Adequate Internal Controls Over Cash Processes And Reporting
- 2017-003 The Fiscal Court Did Not Maintain Adequate Internal Controls Over Payroll Revolving Account
- 2017-004 The Fiscal Court Failed To Have Sufficient Controls Over Inmate Lunches
- 2017-005 The Jailer Failed To Properly Reconcile Inmate Account
- 2017-006 The Fiscal Court Did Not Properly Budget For And Record All Debt-Related Disbursements
- 2017-007 The Fiscal Court Failed To Follow Proper Bid Laws And Regulations
- 2017-008 The Fiscal Court Did Not Properly Report Encumbrances On The 4th Quarter Financial Report
- 2017-009 The Fiscal Court Did Not Properly Disclose Debt Balances On The Quarterly Financial Report
- 2017-010 The Jailer Failed To Remit Sales Tax Reports Timely
- 2017-011 The Jailer Failed To Obtain Fiscal Court Approval Prior To Entering Into Contracts And Spent County Funds Without Fiscal Court Approval
- 2017-012 The Fiscal Court Failed To Require All Employees To Maintain Timesheets
- 2017-013 The Fiscal Court Failed To Pay Invoices Within Thirty (30) Working Days
- 2017-014 Jail Commissary Receipts Are Not Deposited Intact On A Daily Basis
- 2017-015 The Fiscal Court Failed To Properly Code And Record Receipts

Respectfully submitted,



Percy & Gray, PSC
Certified Public Accountants

April 5, 2019

ADAIR COUNTY OFFICIALS

For The Year Ended June 30, 2017

Fiscal Court Members:

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

Other Elected Officials:

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

Appointed Personnel:

Andrea Waggener (beginning October 17, 2016)	Deputy Judge/Executive
Holly Grimsley (through September 15, 2016)	Deputy Judge/Executive
Melinda Quinn (beginning July 1, 2016)	County Treasurer
Gale Cowan	Finance Officer

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,127,703	\$	\$
In Lieu Tax Payments	42,390		
Excess Fees	344,678		
Licenses and Permits	37,359		
Intergovernmental	386,327	1,844,360	994,060
Charges for Services		136,450	77,425
Miscellaneous	223,699	10,407	110,093
Interest	4,285	12,243	341
Total Receipts	<u>2,166,441</u>	<u>2,003,460</u>	<u>1,181,919</u>
DISBURSEMENTS			
General Government	724,234	9,566	
Protection to Persons and Property	44,219		1,277,502
General Health and Sanitation	96,637	38,523	
Social Services	915		
Recreation and Culture	2,750		
Roads		1,815,910	
Airports			
Debt Service	159,666	9,805	31,256
Administration	610,275	132,997	306,600
Total Disbursements	<u>1,638,696</u>	<u>2,006,801</u>	<u>1,615,358</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>527,745</u>	<u>(3,341)</u>	<u>(433,439)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds		100,000	
Change in Payroll Revolving Account	(40,012)		
Transfers From Other Funds	244,495	2,583	420,283
Transfers To Other Funds	(570,085)	(229,683)	
Total Other Adjustments to Cash (Uses)	<u>(365,602)</u>	<u>(127,100)</u>	<u>420,283</u>
Net Change in Fund Balance	162,143	(130,441)	(13,156)
Fund Balance - Beginning	288,887	815,786	57,663
Fund Balance - Ending	<u>\$ 451,030</u>	<u>\$ 685,345</u>	<u>\$ 44,507</u>
Composition of Fund Balance			
Bank Balance	\$ 387,312	\$ 728,171	\$ 53,426
Payroll Account	21,722		
Add: Deposits In Transit	42,390		
Less: Outstanding Checks	(394)	(42,826)	(8,919)
Fund Balance - Ending	<u>\$ 451,030</u>	<u>\$ 685,345</u>	<u>\$ 44,507</u>

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

ADAIR COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017

Budgeted Funds					
Local Government Economic Assistance Fund	Forest Fire Fund	Parks and Recreation Fund	ABC Commission Fund	911 Fund	Green River Animal Shelter Fund
	\$ 2,021	\$		\$ 118,388	\$
			4,900		
126,011		45,696		148,171	14,062
1,793		14,191	8,413	57,575	4,610
558	11	536		244	13
<u>128,362</u>	<u>2,032</u>	<u>60,423</u>	<u>13,313</u>	<u>324,378</u>	<u>18,685</u>
95,812			401		
4,832	2,250			310,857	
18,735					89,894
2,120					
		71,035			
2,000					
7,000					
		18,411			
5,129		2,102		63,887	12,733
<u>135,628</u>	<u>2,250</u>	<u>91,548</u>	<u>401</u>	<u>374,744</u>	<u>102,627</u>
<u>(7,266)</u>	<u>(218)</u>	<u>(31,125)</u>	<u>12,912</u>	<u>(50,366)</u>	<u>(83,942)</u>
	186			65,309	82,430
			(418)	(15,100)	
	<u>186</u>		<u>(418)</u>	<u>50,209</u>	<u>82,430</u>
(7,266)	(32)	(31,125)	12,494	(157)	(1,512)
68,366	34	73,046	343	12,378	2,125
<u>\$ 61,100</u>	<u>\$ 2</u>	<u>\$ 41,921</u>	<u>\$ 12,837</u>	<u>\$ 12,221</u>	<u>\$ 613</u>
\$ 61,100	\$ 2	\$ 42,009	\$ 12,837	\$ 12,545	\$ 534
		(88)		(324)	170
					(91)
<u>\$ 61,100</u>	<u>\$ 2</u>	<u>\$ 41,921</u>	<u>\$ 12,837</u>	<u>\$ 12,221</u>	<u>\$ 613</u>

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

ADAIR COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017

	Unbudgeted Funds		
	Public Properties Corporation Fund	Jail Commissary Fund	Total Funds
RECEIPTS			
Taxes	\$	\$	\$ 1,248,112
In Lieu Tax Payments			42,390
Excess Fees			344,678
Licenses and Permits			42,259
Intergovernmental	843,950		4,402,637
Charges for Services			213,875
Miscellaneous		197,818	628,599
Interest	1	131	18,363
Total Receipts	<u>843,951</u>	<u>197,949</u>	<u>6,940,913</u>
DISBURSEMENTS			
General Government			830,013
Protection to Persons and Property			1,639,660
General Health and Sanitation			243,789
Social Services			3,035
Recreation and Culture		129,107	202,892
Roads			1,817,910
Airports			7,000
Debt Service	839,750		1,058,888
Administration	4,200		1,137,923
Total Disbursements	<u>843,950</u>	<u>129,107</u>	<u>6,941,110</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1</u>	<u>68,842</u>	<u>(197)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			100,000
Change in Payroll Revolving Account			(40,012)
Transfers From Other Funds			815,286
Transfers To Other Funds			(815,286)
Total Other Adjustments to Cash (Uses)			<u>59,988</u>
Net Change in Fund Balance	1	68,842	59,791
Fund Balance - Beginning	4,832	25,578	1,349,038
Fund Balance - Ending	<u>\$ 4,833</u>	<u>\$ 94,420</u>	<u>\$ 1,408,829</u>
Composition of Fund Balance			
Bank Balance	\$ 4,833	\$ 94,800	\$ 1,397,569
Payroll Account			21,722
Add: Deposits In Transit			42,560
Less Outstanding Checks		(380)	(53,022)
Ending Fund Balance	<u>\$ 4,833</u>	<u>\$ 94,420</u>	<u>\$ 1,408,829</u>

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

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TO THE FINANCIAL STATEMENT**

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ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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

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

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

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

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

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

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

The state local finance officer does not require the Public Properties Corporation Fund – 2014 Series to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

The state local finance officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

E. Adair County Elected Officials

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

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

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

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

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240.

G. Long-term Obligations

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

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the 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 66.480(1)(d) and KRS 41.240. As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	Road Fund	ABC Commission Fund	911 Fund	Total Transfers In
General Fund	\$	\$ 228,977	\$ 418	\$ 15,100	\$ 244,495
Road Fund	2,583				2,583
Jail Fund	419,577	706			420,283
Forest Fire Fund	186				186
911 Fund	65,309				65,309
Green River Animal Shelter Fund	82,430				82,430
Total Transfers Out	<u>\$ 570,085</u>	<u>\$ 229,683</u>	<u>\$ 418</u>	<u>\$ 15,100</u>	<u>\$ 815,286</u>

Reason for transfers:

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

Note 4. Agency Trust Funds

Trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the Jail Inmate Fund as of June 30, 2017 was \$28,202.

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2007

The Adair County Public Properties Corporation (PPC), an agency and instrumentality of the Adair County Fiscal Court, issued the First Mortgage Revenue Bonds, Series 2007 for the purposes of acquisition, construction, installation, and equipping of the Adair County Courthouse Facility. On December 27, 2007, \$12,470,000 in bonds was issued at various interest rates. Since these bonds were issued at a discount of \$208,564, net proceeds were \$12,261,436. The PPC has entered into an agreement to lease the Adair County Courthouse Facility to the fiscal court for the amount of the bond payments. The fiscal court has a sublease with the Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Adair County Courthouse Facility. On November 4, 2015, the Adair County Public Properties Corporation (PPC) issued \$7,265,000 in Refunding Revenue Bonds (Justice Center Project), Series 2015 that advance refunded the First Mortgage Revenue Bonds, Series 2007 bonds. As of June 30, 2017, the principal balance was \$1,205,000. Future debt service requirements are:

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 5. Long-term Debt (Continued)

A. First Mortgage Revenue Bonds, Series 2007 (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2018	\$ 590,000	\$ 36,400
2019	615,000	12,300
Totals	<u>\$ 1,205,000</u>	<u>\$ 48,700</u>

B. First Mortgage Refunding Revenue Bonds, Series 2015

On November 4, 2015, the Adair County Public Properties Corporation (PPC), an agency and instrumentality of the Adair County Fiscal Court, issued \$7,265,000 in Refunding Revenue Bonds (Justice Center Project), Series 2015. These bonds mature in varying amounts from \$70,000 to \$900,000 on December 1 of each year from 2018 through 2027. Proceeds of the bonds were used to refund the First Mortgage Revenue Bonds, Series 2007, which was for the purpose of acquisition, construction, installation, and equipping of the Adair County Courthouse Facility. Interest is payable semi-annually on June 1 and December 1 at rates ranging from 2.0% to 3.5% and principal payments are due annually on December 1 of each year. As of June 30, 2017, the principal balance was \$7,265,000. Future debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2018	\$	\$ 210,150
2019	70,000	209,450
2020	710,000	201,650
2021	725,000	183,675
2022-2026	3,990,000	571,800
2027-2028	1,770,000	53,550
Totals	<u>\$ 7,265,000</u>	<u>\$ 1,430,275</u>

C. Land

In February 2008, Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of land. The principal was \$70,000, at an interest rate of 4.363% for a period of 120 months. Interest and principal payments are due monthly. The principal outstanding as of June 30, 2017 was \$5,648. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2018	\$ 5,648	\$ 231
Totals	<u>\$ 5,648</u>	<u>\$ 231</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 5. Long-term Debt (Continued)

D. Christian Life Center Land

In May 2011, Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of land to be used for the Christian Life Center. The principal was \$150,000, at a variable interest rate for a period of 120 months. Principal and interest payments are due monthly. The principal outstanding as of June 30, 2017 was \$62,860. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 15,522	\$ 2,539
2019	15,879	1,826
2020	16,242	1,098
2021	15,217	349
Totals	<u>\$ 62,860</u>	<u>\$ 5,812</u>

E. Energy Savings and Hospital, Series 2014A

On March 27, 2014, the Adair County Fiscal Court entered into a \$1,950,000 agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The purpose was to fund an energy savings project in the amount of \$250,000 and refinance the hospital equipment debt in the amount of \$1,700,000. The energy savings portion requires monthly payments of principal and interest until December 2023. The Hospital portion requires monthly and interest payments until December 2028. As of June 30, 2017, the principal balance remaining for the energy savings portion and hospital portion was \$167,500 and \$1,365,000 respectively. Future principal and interest requirements are:

1. Energy Savings Portion

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 25,000	\$ 5,444
2019	25,000	4,631
2020	25,000	3,819
2021	25,000	3,006
2022	25,000	2,194
2023-2024	42,500	1,869
Totals	<u>\$ 167,500</u>	<u>\$ 20,963</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 5. Long-term Debt (Continued)

E. Energy Savings and Hospital, Series 2014A (Continued)

2. Hospital Portion

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 100,000	\$ 50,163
2019	102,500	46,913
2020	107,500	43,581
2021	110,000	40,087
2022	112,500	36,513
2023-2027	620,000	123,419
2028-2029	212,500	12,788
Totals	<u>\$ 1,365,000</u>	<u>\$ 353,464</u>

F. Mack Trucks

On October 18, 2016, Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of a dump truck that will be utilized by the road department. The dump truck was purchased for the amount of \$107,994 of which \$100,000 was financed. The principal was \$100,000, at an interest rate of 2.652 percent for a period of 96 months. Interest and principal payments are due monthly. The principal outstanding as of June 30, 2017 was \$92,547. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018	\$ 11,587	\$ 3,012
2019	11,898	2,607
2020	12,217	2,192
2021	12,545	1,765
2022	12,882	1,326
2023-2025	31,418	1,323
Totals	<u>\$ 92,547</u>	<u>\$ 12,225</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 5. Long-term Debt (Continued)

G. Changes In Long-Term Debt

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 9,040,000	\$	\$ 570,000	\$ 8,470,000	\$ 590,000
Financing Obligations	1,746,860	100,000	153,305	1,693,555	157,757
Total Long-term Debt	<u>\$10,786,860</u>	<u>\$ 100,000</u>	<u>\$ 723,305</u>	<u>\$10,163,555</u>	<u>\$ 747,757</u>

Note 6. Employee Retirement System

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

The county's contribution for FY 2015 was \$483,000, FY 2016 was \$437,165, and FY 2017 was \$527,114.

Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances.

Nonhazardous

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

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

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (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.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 6. Employee Retirement System (Continued)

The county's contribution rate for nonhazardous employees was 18.68 percent.

Hazardous

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

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

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

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

The county's contribution rate for hazardous employees was 31.06 percent.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

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

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

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

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 6. Employee Retirement System (Continued)

Health Insurance Coverage (Continued)

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

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 7. Deferred Compensation

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

These deferred compensation plans 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 8. Insurance

For the fiscal year ended June 30, 2017, 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.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 9. Community Development Block Grant Forgivable Deferred Loan

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

Note 10. Conduit Debt

From time to time the Adair County Fiscal Court has issued bonds to provide financial assistance to the local private college for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Adair County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2017, the Educational Development Revenue Bonds (Lindsey Wilson College Project), Series 2011, were outstanding, with a principal amount payable of \$7,860,000.

Note 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2017, was added to the general fund cash balance for financing reporting purposes.

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,095,000	\$ 1,164,618	\$ 1,127,703	\$ (36,915)
In Lieu Tax Payments	50,000	50,000	42,390	(7,610)
Excess Fees	175,000	344,678	344,678	
Licenses and Permits	31,500	36,946	37,359	413
Intergovernmental	271,700	328,043	386,327	58,284
Miscellaneous	232,000	257,238	223,699	(33,539)
Interest	2,500	3,887	4,285	398
Total Receipts	1,857,700	2,185,410	2,166,441	(18,969)
DISBURSEMENTS				
General Government	747,700	782,589	724,234	58,355
Protection to Persons and Property	45,625	47,110	44,219	2,891
General Health and Sanitation	50,400	100,026	96,637	3,389
Social Services	500	1,850	915	935
Recreation and Culture	6,500	4,750	2,750	2,000
Debt Service	158,000	163,717	159,666	4,051
Administration	562,171	798,564	610,275	188,289
Total Disbursements	1,570,896	1,898,606	1,638,696	259,910
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	286,804	286,804	527,745	240,941
Other Adjustments to Cash (Uses)				
Change in Payroll Revolving Account			(40,012)	(40,012)
Transfers From Other Funds	201,071	201,071	244,495	43,424
Transfers To Other Funds	(737,875)	(737,875)	(570,085)	167,790
Total Other Adjustments to Cash (Uses)	(536,804)	(536,804)	(365,602)	171,202
Net Change in Fund Balance	(250,000)	(250,000)	162,143	412,143
Fund Balance Beginning	250,000	250,000	288,887	38,887
Fund Balance - Ending	\$ 0	\$ 0	\$ 451,030	\$ 451,030

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,373,571	\$ 1,845,486	\$ 1,844,360	\$ (1,126)
Charges for Services	155,000	155,000	136,450	(18,550)
Miscellaneous	4,000	51,481	10,407	(41,074)
Interest	5,000	11,600	12,243	643
Total Receipts	<u>1,537,571</u>	<u>2,063,567</u>	<u>2,003,460</u>	<u>(60,107)</u>
DISBURSEMENTS				
General Government	16,000	16,000	9,566	6,434
General Health and Sanitation	34,000	38,523	38,523	
Roads	1,356,150	1,908,429	1,815,910	92,519
Debt Service		11,052	9,805	1,247
Administration	205,350	747,048	132,997	614,051
Total Disbursements	<u>1,611,500</u>	<u>2,721,052</u>	<u>2,006,801</u>	<u>714,251</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(73,929)</u>	<u>(657,485)</u>	<u>(3,341)</u>	<u>654,144</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			100,000	100,000
Transfers From Other Funds			2,583	2,583
Transfers To Other Funds	<u>(201,071)</u>	<u>(201,071)</u>	<u>(229,683)</u>	<u>(28,612)</u>
Total Other Adjustments to Cash (Uses)	<u>(201,071)</u>	<u>(201,071)</u>	<u>(127,100)</u>	<u>73,971</u>
Net Change in Fund Balance	<u>(275,000)</u>	<u>(858,556)</u>	<u>(130,441)</u>	<u>728,115</u>
Fund Balance Beginning	<u>275,000</u>	<u>857,199</u>	<u>815,786</u>	<u>(41,413)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (1,357)</u>	<u>\$ 685,345</u>	<u>\$ 686,702</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

JAIL FUND				
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 735,800	\$ 919,665	\$ 994,060	\$ 74,395
Charges for Services	80,000	99,773	77,425	(22,348)
Miscellaneous	69,000	113,014	110,093	(2,921)
Interest		305	341	36
Total Receipts	<u>884,800</u>	<u>1,132,757</u>	<u>1,181,919</u>	<u>49,162</u>
DISBURSEMENTS				
Protection to Persons and Property	1,095,950	1,302,931	1,277,502	25,429
Debt Service	30,000	31,256	31,256	
Administration	305,150	402,533	306,600	95,933
Total Disbursements	<u>1,431,100</u>	<u>1,736,720</u>	<u>1,615,358</u>	<u>121,362</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(546,300)</u>	<u>(603,963)</u>	<u>(433,439)</u>	<u>170,524</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>546,300</u>	<u>546,300</u>	<u>420,283</u>	<u>(126,017)</u>
Total Other Adjustments to Cash (Uses)	<u>546,300</u>	<u>546,300</u>	<u>420,283</u>	<u>(126,017)</u>
Net Change in Fund Balance		(57,663)	(13,156)	44,507
Fund Balance Beginning		<u>57,663</u>	<u>57,663</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 44,507</u>	<u>\$ 44,507</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 150,000	\$ 188,610	\$ 126,011	\$ (62,599)
Miscellaneous		1,794	1,793	(1)
Interest	500	504	558	54
Total Receipts	150,500	190,908	128,362	(62,546)
DISBURSEMENTS				
General Government	26,900	103,014	95,812	7,202
Protection to Persons and Property	3,700	6,200	4,832	1,368
General Health and Sanitation	19,100	20,489	18,735	1,754
Social Services	1,500	2,620	2,120	500
Roads	75,000	74,543	2,000	72,543
Airports	7,000	7,000	7,000	
Administration	42,300	45,408	5,129	40,279
Total Disbursements	175,500	259,274	135,628	123,646
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(25,000)	(68,366)	(7,266)	61,100
Net Change in Fund Balance	(25,000)	(68,366)	(7,266)	61,100
Fund Balance Beginning	25,000	68,366	68,366	
Fund Balance - Ending	\$ 0	\$ 0	\$ 61,100	\$ 61,100

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

FOREST FIRE FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 2,000	\$ 2,021	\$ 2,021	\$
Interest		9	11	2
Total Receipts	<u>2,000</u>	<u>2,030</u>	<u>2,032</u>	<u>2</u>
DISBURSEMENTS				
Protection to Persons and Property	2,250	2,250	2,250	
Administration		64		64
Total Disbursements	<u>2,250</u>	<u>2,314</u>	<u>2,250</u>	<u>64</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(250)</u>	<u>(284)</u>	<u>(218)</u>	<u>66</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>250</u>	<u>250</u>	<u>186</u>	<u>(64)</u>
Total Other Adjustments to Cash (Uses)	<u>250</u>	<u>250</u>	<u>186</u>	<u>(64)</u>
Net Change in Fund Balance		(34)	(32)	2
Fund Balance Beginning		<u>34</u>	<u>34</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2</u>	<u>\$ 2</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

PARKS AND RECREATION FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 25,000	\$ 42,962	\$ 45,696	\$ 2,734
Miscellaneous	6,000	13,715	14,191	476
Interest	1,200	1,200	536	(664)
Total Receipts	<u>32,200</u>	<u>57,877</u>	<u>60,423</u>	<u>2,546</u>
DISBURSEMENTS				
Recreation and Culture	25,600	81,084	71,035	10,049
Debt Service	19,300	19,474	18,411	1,063
Administration	27,300	30,365	2,102	28,263
Total Disbursements	<u>72,200</u>	<u>130,923</u>	<u>91,548</u>	<u>39,375</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(40,000)</u>	<u>(73,046)</u>	<u>(31,125)</u>	<u>41,921</u>
Net Change in Fund Balance	(40,000)	(73,046)	(31,125)	41,921
Fund Balance Beginning	<u>40,000</u>	<u>73,046</u>	<u>73,046</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 41,921</u>	<u>\$ 41,921</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

ABC COMMISSION FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$	\$ 4,900	\$ 4,900	\$
Miscellaneous		8,408	8,413	5
Total Receipts		13,308	13,313	5
DISBURSEMENTS				
General Government		401	401	
Administration		13,250		13,250
Total Disbursements		13,651	401	13,250
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(343)	12,912	13,255
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(418)	(418)
Total Other Adjustments to Cash (Uses)			(418)	(418)
Net Change in Fund Balance		(343)	12,494	12,837
Fund Balance Beginning		343	343	
Fund Balance - Ending	\$ 0	\$ 0	\$ 12,837	\$ 12,837

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 155,000	\$ 155,000	\$ 118,388	\$ (36,612)
Intergovernmental	110,000	139,134	148,171	9,037
Miscellaneous		57,575	57,575	
Interest	250	250	244	(6)
Total Receipts	265,250	351,959	324,378	(27,581)
DISBURSEMENTS				
Protection to Persons and Property	286,800	349,274	310,857	38,417
Administration	83,200	118,456	63,887	54,569
Total Disbursements	370,000	467,730	374,744	92,986
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(104,750)	(115,771)	(50,366)	65,405
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	104,750	104,750	65,309	(39,441)
Transfers To Other Funds			(15,100)	(15,100)
Total Other Adjustments to Cash (Uses)	104,750	104,750	50,209	(54,541)
Net Change in Fund Balance		(11,021)	(157)	10,864
Fund Balance Beginning		12,378	12,378	
Fund Balance - Ending	\$ 0	\$ 1,357	\$ 12,221	\$ 10,864

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

GREEN RIVER ANIMAL SHELTER FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 19,000	\$ 19,000	\$ 14,062	\$ (4,938)
Miscellaneous	6,500	8,461	4,610	(3,851)
Interest		12	13	1
Total Receipts	<u>25,500</u>	<u>27,473</u>	<u>18,685</u>	<u>(8,788)</u>
DISBURSEMENTS				
General Health and Sanitation	94,600	100,921	89,894	11,027
Administration	17,475	16,136	12,733	3,403
Total Disbursements	<u>112,075</u>	<u>117,057</u>	<u>102,627</u>	<u>14,430</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(86,575)</u>	<u>(89,584)</u>	<u>(83,942)</u>	<u>5,642</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>86,575</u>	<u>86,575</u>	<u>82,430</u>	<u>(4,145)</u>
Total Other Adjustments to Cash (Uses)	<u>86,575</u>	<u>86,575</u>	<u>82,430</u>	<u>(4,145)</u>
Net Change in Fund Balance		(3,009)	(1,512)	1,497
Fund Balance Beginning		<u>2,125</u>	<u>2,125</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (884)</u>	<u>\$ 613</u>	<u>\$ 1,497</u>

ADAIR COUNTY
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION-
BUDGETARY COMPARISON SCHEDULES

June 30, 2017

Note 1. Budgetary Information

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

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

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

ADAIR COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017

ADAIR COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017

The fiscal court reports the following schedule of capital assets:

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Land	\$ 2,068,845	\$	\$	\$ 2,068,845
Buildings and Building Improvements	16,934,336			16,934,336
Vehicles and Equipment	1,924,531	186,998	74,295	2,037,234
Other Equipment	385,547	45,182		430,729
Infrastructure	13,867,940	716,424		14,584,364
Total Capital Assets	<u>\$ 35,181,199</u>	<u>\$ 948,604</u>	<u>\$ 74,295</u>	<u>\$36,055,508</u>

The fiscal court prior year capital assets was adjusted as follows:

	Beginning Balance	Additions	Deletions	Beginning Balance (Restated)
Land	\$ 2,068,845	\$	\$	\$ 2,068,845
Buildings and Building Improvements	16,894,636	39,700		16,934,336
Vehicles and Equipment	2,023,400	9,125	107,994	1,924,531
Other Equipment	350,547	35,000		385,547
Infrastructure	13,867,941		1	13,867,940
Total Capital Assets	<u>\$ 35,205,369</u>	<u>\$ 83,825</u>	<u>\$ 107,995</u>	<u>\$35,181,199</u>

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

June 30, 2017

Note 1. Capital Assets

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

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

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



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The Honorable Gale Cowan, Adair County Judge/Executive
The Honorable Michael Lee Stephens, Former Adair County Judge/Executive
Members of the Adair County Fiscal Court

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

Independent Auditors' Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Adair County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Adair County Fiscal Court's financial statement and have issued our report thereon dated April 5, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be *material weaknesses* and other deficiencies that we consider to be *significant deficiencies*.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2017-001 and 2017-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-003, 2017-004, and 2017-005 to be significant deficiencies.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Adair County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-006, 2017-007, 201-008, 2017-009, 2017-010, 2017-011, 2017-012, 2017-013, 2017-014, and 2017-015.

Views of Responsible Officials and Planned Corrective Action

Adair County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



Percy & Gray, PSC
Certified Public Accountants

April 5, 2019

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended June 30, 2017

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2017

INTERNAL CONTROL – MATERIAL WEAKNESSES:

2017-001 The Fiscal Court Failed To Implement Sufficient Controls Over Disbursements

This is a repeat finding and was included in the prior year report as finding 2016-006. Controls over disbursements were not operating as intended. Disbursements were not properly authorized. Some supporting documentation was not maintained. Other supporting documentation was not appropriate. Proper procedures were not followed. These deficiencies occurred due to a lack of monitoring of controls which diminished effectiveness of the controls put in place over disbursements by fiscal court. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets.

As a result of the deficiencies noted above the following exceptions occurred:

- Four (4) instances were noted where disbursements were made and not approved by Fiscal Court prior to payment that totaled \$37,191.
- Two (2) disbursements were not paid within 30 working days.
- Two (2) disbursements totaling \$672 were missing supporting invoices.
- Thirty-eight (38) instances were noted where disbursements did not have purchase orders attached to the invoice.
- Two (2) disbursements totaling \$264,013 were missing the supporting haul tickets that support the claims.
- One (1) instance was noted where the fiscal court failed to obtain bids from vendors for the purchase of bridge steel totaling \$20,668.
- One (1) instance where an interest payment was paid twice on a debt issue.
- Purchase orders were entered as disbursements rather than being included as encumbrances throughout numerous funds that overstated the disbursements on the 4th Quarter Report.

Proper internal controls over expenditures are important to ensure purchase orders are created with sufficient funds available, are approved by Fiscal Court, include proper supporting documentation, and are paid in a timely manner. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's *Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual*, "purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head." KRS 68.275 also requires the County Judge/Executive to present all claims to the fiscal court for review prior to payment unless the expenses are included on a standing order adopted by the fiscal court to preapprove the payment of certain claims such as monthly payroll and utility expenses. Furthermore, KRS 65.140 requires invoices to be paid within 30 working days of being received. KRS 424.260 (1) states, "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids."

We recommend fiscal court implement proper internal controls over expenditures and ensure they are operating effectively.

Judge/Executive's Response: Finance Officer and Treasurer are working with department heads to bid out projects with fiscal court approval.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES: (Continued)

2017-002 The Fiscal Court Did Not Maintain Adequate Internal Controls Over Cash Processes And Reporting

The fiscal court lacks proper internal controls over the cash reconciliation and reporting functions. We noted the following:

- There is no documented evidence of the review of the deposits being made and entries in the receipts ledger
- The reconciled Road Fund balance on both the 4th Quarter Report and bank reconciliation was incorrect. Outstanding checks were not reported accurately resulting in an overstatement of ending Road Fund balance on the bank reconciliation of \$42,560.
- The reconciled General Fund balance on both the 4th Quarter Report and bank reconciliation was incorrect. A deposit in transit was not reported accurately resulting in an understated ending General Fund balance on the bank reconciliation of \$42,390.
- The reconciled Green River Animal Shelter Fund balance on both the 4th Quarter Report and bank reconciliation was incorrect. A deposit in transit was not reported accurately resulting in an understated ending Green River Animal Shelter Fund balance on the bank reconciliation of \$170.
- The payroll revolving account was not reconciled to zero.
- Purchase orders were entered as disbursements rather than being included as encumbrances throughout numerous funds that overstated the disbursements on the 4th Quarter Report.

Lack of oversight may result in the misappropriation of assets and/or fraudulent financial reporting

The quarterly report is a cumulative report and is prepared on a regulatory basis by the County Judge Executive and the County Treasurer pursuant to KRS 68.210. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the Kentucky Department for Local Government's *Budget and Policy Manual*, requires the Fourth Quarter Financial Report to be utilized for reporting. Furthermore compensating controls over the cash and reconciliation functions when staff is limited is essential for providing protection from asset misappropriation and/or fraudulent financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Some compensating controls may include:

- An independent person could compare the listing of receipts to the County Treasurer's deposits and receipt ledger. The comparison should be documented.
- An independent person could review the County Treasurer's bank reconciliations for accuracy and/or unusual items, and compare to the ending fund balances. This review should be documented.

To adequately protect against misappropriation of assets and/or fraudulent financial reporting, we recommend that the fiscal court separate the duties of the cash and reconciliation process. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties.

Judge/Executive's Response: County Treasurer has updated direct deposit with Commonwealth of Kentucky and the Finance Officer is reviewing Treasurer's Report.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFECIENCIES:

2017-003 The Fiscal Court Did Not Maintain Adequate Internal Controls Over Payroll Revolving Account

This is a repeat finding and was included in the prior year report as finding 2016-013. The fiscal Court lacks proper internal controls over the payroll function. During our review of payroll processing procedures and reconciliation, we noted that the payroll revolving account did not reconcile to zero as of June 30, 2017. An excess book balance of \$21,722 will be reported as part of the General Fund balance.

Compensating controls over the payroll functions, when staff is limited, is essential for providing protection from asset misappropriation and/or fraudulent financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Payroll revolving accounts are clearing accounts and should reconcile to a zero balance at the end of each month. The balance as noted above results in the misstatement of other funds by transferring more funds than needed.

Lack of controls may result in misappropriation of assets and/or fraudulent reporting

To adequately protect against misappropriation of assets and/or fraudulent financial reporting, we recommend that the fiscal court implement internal controls over payroll account reconciliations to ensure funds needed for payroll are sufficient.

Judge/Executive's Response: The fiscal court voted on new payroll system and the County Treasurer is working to correct this issue.

2017-004 The Fiscal Court Failed To Have Sufficient Controls Over Inmate Lunches

This is a repeat finding and was included in the prior year report as finding 2016-020. Inmate lunches purchased during the fiscal year from local restaurants totaled \$16,132. Of this amount, \$8,061 was spent from the General Fund when inmates helped with picking up trash for recycling, \$3,871 was spent from the Road Fund for inmates helping the Road Department with litter abatement, and \$4,200 was spent from the Green River Animal Shelter Fund helping the animal shelter with animal care. The receipts from restaurants for these lunches were not detailed or documented. The receipt had a signature of a jail employee, however, there was no designation of purpose of the lunches.

By spending an excessive amount of public funds on inmate lunches, funds are not available elsewhere to be used in the best interest of the fiscal court. Furthermore, by not budgeting these expenditures for inmate lunches in the Jail's budget, the General, Road, and Green River Animal Shelter Funds are being limited to purchases within their budget for expenditures which are related to the Jail.

Internal controls provide a way for the fiscal court to protect county assets by requiring appropriate documentation, approval, and properly budgeting Jail expenditures. Good internal controls such as a keeping detailed receipts and documenting inmate names working with other departments each day is essential for accurate record keeping.

We recommend the fiscal court and Jailer properly budget inmate lunches within the Jail budget in the future. We further recommend the Fiscal Court and Jailer implement strong controls over amounts spent for inmate lunches to ensure funds are being spent in the best interest of the fiscal court and public.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFECIENCIES: (Continued)

2017-004 The Fiscal Court Failed To Have Sufficient Controls Over Inmate Lunches (Continued)

County Jailer's Response: As of August 2018, we contracted through Kellwell Food Services to supply all inmate lunches. This eliminated the county purchasing lunches for the inmate workers with each department.

2017-005 The Jailer Failed To Properly Reconcile Inmate Account

This is a repeat finding and was included in the prior year report as finding 2016-009. Reconciliations for the Inmate Account were not prepared correctly. The reconciliations did not include allowances for receivables and liabilities to ensure that all monies are properly reconciled. This account is used to account for funds deposited by or on behalf of inmates. After funds are deposited, inmates' balances within the account are reduced for jail costs and fees as well as inmate purchases from the jail commissary. At the time of an inmate's release, if the inmate owes no additional amounts, the amount remaining in the inmate's account is refunded.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires Jailers to maintain monthly cash reconciliations. In order to reflect an accurate book balance, this reconciliation should include a complete and accurate listing of all outstanding checks as well as all receivables and liabilities.

Failure to properly reconcile the inmate account due to a lack of controls may result in misappropriation of inmate funds.

We recommend internal controls over the Inmate Account reconciliation process be strengthened to ensure that all outstanding checks, deposits-in-transit, receivables, and liabilities are accurately reflected on the monthly bank reconciliations. The Jailer or another independent employee should review the monthly bank reconciliations prepared by the bookkeeper to ensure they are accurate. This review could be documented by the reviewer signing the bank reconciliation. The reconciled bank balance should then be agreed to the total inmate balance for the reconciliation period.

County Jailer's Response: As of 2018, we are now reconciling account monthly and have reports showing how much money is inmate money and accounts on the last day of each month.

STATE LAWS AND REGULATIONS:

2017-006 The Fiscal Court Did Not Properly Budget For And Record All Debt-Related Disbursements

The fiscal court did not comply with reporting requirements for debt bearing the fiscal court's name.

During the year, a new financing obligation was entered into by fiscal court. However, the proceeds went directly from lessor to vendor and were not reported on the financial statement. The new financing obligation, in the amount of \$100,000, was for the purchase of a dump truck.

These transactions did not run through the fiscal court's bank accounts, were not included in the fiscal court's budget process, or reflected on the fiscal court's Fourth Quarter Financial Report. As a result, the fiscal court failed to properly budget for and record debt-related receipts and disbursements of \$100,000.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-006 The Fiscal Court Did Not Properly Budget For And Record All Debt-Related Disbursements (Continued)

The fiscal court was also unaware that financing obligations proceeds must be shown on the financial statement, even when the fiscal court does not receive the proceeds.

The occurrence described above resulted in the liabilities information not accurately being presented to management, regulatory agencies, and other users of the information. Also, adjustments to include this activity on the Fourth Quarter Financial Report resulted in fiscal court appropriations exceeding the approved budget.

KRS 68.300 states, “Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not made within the budget appropriations, shall be void.” KRS 68.280 gives fiscal courts the ability to amend the budget when necessary which would have prevented appropriations from exceeding the approved budget. Because the fiscal court is obligated for these financing obligations, all debt should be budgeted for and recorded.

We recommend fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all fiscal court disbursements and amending the budget as necessary to reflect unanticipated receipts and disbursements.

Judge/Executive’s Response: Will post all debt/loans to budget with budget amendment.

2017-007 The Fiscal Court Failed To Follow Proper Bid Laws And Regulations

This is a repeat finding and was included in the prior year report as finding 2016-007. The fiscal court did not bid purchases from a vendor for over \$20,000. These disbursements consisted of bridge steel totaling \$20,668.

Sufficient internal controls were not in place over the bidding process to ensure items were not purchased from a vendor without first advertising or receiving bids when necessary on all purchases required to be bid. By limiting competition or not receiving bids at all, fiscal court may not get the benefits of the best price available. Competitive bidding ensures the Fiscal Court procures equipment and services at the best price available.

KRS 424.260 (1) states, “Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

We recommend fiscal court follow proper bid laws and regulations by ensuring all purchases of \$20,000 or more be made in compliance with KRS 424.260.

Judge/Executive’s Response: All Department Heads has to take all purchases of \$20,000 or more to fiscal court for approval to advertisement for bids.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-008 The Fiscal Court Did Not Properly Report Encumbrances On The 4th Quarter Financial Report

The fiscal court failed to properly report encumbrances on the 4th Quarter Report. The fiscal court inadvertently posted purchase orders that would have been encumbrances as disbursements on the appropriation ledger.

Lack of oversight and not reporting encumbrances on the Quarterly Report may present a skewed perspective of the financial well-being of the county as of June 30. Not following established internal control procedures for the disbursement process increases the risk of inaccurate financial reporting, misappropriation of assets, overstated disbursements, and noncompliance with the approved budget increases.

The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe the minimum requirements for handling public funds. The *County Budget Preparation and State Local Finance Officer Policy Manual*, outlines requirements for handling public funds, including required purchasing procedures for counties and accounting for encumbrances. These requirements prescribe that purchases shall not be made without approval by the judge/executive or the department head and all purchase requests indicate the appropriations account to which the claim will be posted. A properly functioning internal control system requires the designed control procedures be consistently performed. The key control for a purchase order system is the authorization of the disbursement before it is paid. In addition, the amount authorized to be spent should agree to the check issued.

We recommend the fiscal court implement procedures to ensure purchase orders are issued on all disbursements prior to purchases being initiated and purchase orders are signed. The county should require purchase orders be attached to all invoices presented for their review and ensure that purchase orders are appropriately accounted for.

Judge/Executive's Response: PO's are now issued before any purchase is made.

2017-009 The Fiscal Court Did Not Properly Disclose Debt Balances On The Quarterly Financial Report

This is a repeat finding and was included in the prior year report as finding 2016-018. The fiscal court did not report the correct principal and interest remaining balances on the Quarterly Financial Report. The fiscal court understated the principal and interest remaining balances by \$13,346 and \$14,658, respectively.

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

There was a lack of oversight that resulted in the improper amounts being reported. Inadequate disclosure of debt could affect management decisions as it relates to debt service.

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

Judge/Executive's Response: The debt balance is updated monthly on Financial Report.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-010 The Jailer Failed To Remit Sales Tax Reports Timely

This is a repeat finding and was included in the prior year report as finding 2016-011. Quarterly sales tax reports for all four quarters of the fiscal year ended June 30, 2017 were not submitted in a timely manner.

The reports for the quarters ended September 30, 2016 and December 31, 2016 were remitted on January 27, 2017. The report for March 31, 2017 was remitted on June 22, 2017. The report for June 30, 2017 was prepared and submitted on August 7, 2017. Interest and penalties of \$900 were determined to have been paid during the year. In addition, a payment of \$1,348 was made on October 27, 2017 that was for a notice received from the Kentucky Department of Revenue for the period ended December 31, 2017. The supporting documentation that would have detailed the amounts due for tax, interest, and penalties was missing. Based on the amount in comparison to the other penalties and interest that was paid for late sales tax reports being remitted, the Jail may have overpaid sales taxes to the state. In addition, sales tax interest and penalties should not be paid out of the commissary funds.

Failure to timely remit sales taxes due to lack of oversight resulted in interest and penalties.

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

We recommend the Jailer avoid paying penalties and interest by submitting quarterly sales tax reports in a timely manner. Additionally we recommend the Jailer to investigate and determine whether sales tax was overpaid. Finally, the fiscal court should reimburse the Jail Commissary Fund for all penalties and interest paid by the Jail Commissary Fund.

County Jailer's Response: As of 2018, we have gone to paying sales tax on a monthly basis instead of quarterly. This has eliminated taxes being paid late and any late fees or penalties.

2017-011 The Jailer Failed To Obtain Fiscal Court Approval Prior To Entering Into Contracts And Spent County Funds Without Fiscal Court Approval

This is a repeat finding and was included in the prior year report as finding 2016-012. The Jailer entered into two contracts without obtaining fiscal court's approval. On March 5, 2016, the Jailer entered into a 48 month agreement with a telecommunications vendor to provide inmate telephone services. On May 9, 2016 the Jailer entered into a contract with another vendor to provide jail commissary services. The fiscal court subsequently approved these contracts on January 26, 2017.

The agreement for inmate telephone services included a signing bonus commission in the form of a \$40,000 tech grant which is maintained by the vendor. The vendor allows the Jailer, without obtaining Fiscal Court's approval, to order goods and services. The costs of items ordered are then paid by the vendor and deducted from the grant balance. Terms of the agreement stipulate the tech grant is to be used over the term of the agreement and will be prorated over the forty-eight month period. If the agreement is terminated early, the prorated amount will be due back to the vendor within fifteen days of termination notification. During the fiscal year ended June 30, 2017, the Jailer ordered a refrigerator and equipment totaling \$7,638. The Jailer subsequently purchased or paid for other goods or services totaling \$27,084. The Jailer has spent the full amount of the \$40,000 allotment as of September 6, 2018 with a total of \$33,555 of the grant being spent

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-011 The Jailer Failed To Obtain Fiscal Court Approval Prior To Entering Into Contracts And Spent County Funds Without Fiscal Court Approval (Continued)

without fiscal court approval. The remaining balance of \$6,445 was properly approved and deposited into the Jail fund on September 6, 2018.

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

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

County Jailer's Response: As of September 6, 2018, we have gotten approval from fiscal court to spend funds out of tech grant. This was when we first had knowledge of how the money was supposed to be appropriated and the spending of any money from tech grant. During the fiscal court meeting in February 2019, the contract was approved for our Combined Public Communications phone system contract with a new tech grant of \$40,000 over a period of four years.

2017-012 The Fiscal Court Failed To Require All Employees To Maintain Timesheets

This is a repeat finding and was included in the prior year report as finding 2016-014. The fiscal court failed to require all employees to maintain timesheets. During our testing of payroll procedures we noted two (2) of the twenty-one (21) employees tested didn't maintain timesheets. Also, eleven (11) employee timesheets of the twenty-one (21) didn't have either the employee's signature, supervisor's signature or missing both.

The deficiencies above were able to occur due to lack of oversight or not understanding the timesheet requirements.

KRS 337.320(1)(b) states that every employer shall maintain the amount paid each pay period to each employee and the hours worked each day and each week by each employee.

We recommend the County strengthen controls over the payroll process by requiring all county employees to prepare a timesheet each pay period indicating the actual hours worked. The timesheets should be signed by the employee indicating they agree with the hours worked and should also be signed by a supervisor indicating approval.

Judge/Executive's Response: The new payroll system is helping to correct this problem.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-013 The Fiscal Court Failed To Pay Invoices Within Thirty (30) Working Days

Fiscal court failed to pay disbursements within thirty (30) working days.

Lack of monitoring of controls resulted in the failure to pay claims timely in which additional costs for interest could be incurred.

KRS 65.140(2) states “that the county pay all bills for goods or services within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.” KRS65.140(3) states “an interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor’s invoice by the purchaser.”

We recommend fiscal court implement procedures to claims are paid in accordance with KRS 65.140.

Judge/Executive’s Response: The fiscal court has voted in court to have two meetings a month to approve claims paid.

2017-014 Jail Commissary Receipts Are Not Deposited Intact On A Daily Basis

The Jailer does not deposit Jail Commissary receipts intact on a daily basis. In addition, supporting receipts issued to inmates are not attached to the checkout sheets.

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

There was a lack of knowledge of the deposit requirements. When Jail Commissary receipts are not deposited timely, there is an increase in the risk of misappropriation of cash. The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. Additionally, when deposits are not made timely, the risk that the bank account can be overdrawn is increased.

We recommend the Jail Commissary deposit all receipts daily.

County Jailer’s Response: We have Kiosk machines that money is deposited into and counts all monies. All cash is going through Kiosk machine and not staff. The money is accounted for and shows exact time and date of deposited funds for inmates on deposit report. We do not have the staffing to do a money count and deposit daily at the end of each day.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2017
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-015 The Fiscal Court Failed To Properly Code And Record Receipts

This is a repeat finding and was exit only comment from prior year. During revenue testing, we noted numerous instances where receipts were posted to incorrect receipt account codes. In addition, it was noted that receipts that were deposited into the incorrect fund was recorded in that fund as a miscellaneous receipt and then transferred out into the correct fund instead of performing a bank transfer and recording in the correct fund only.

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

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

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

Judge/Executive's Response: The County Treasurer is working on updating all receipt account codes in budget book.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

ADAIR COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2017**


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

For The Fiscal Year Ended June 30, 2017

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



County Judge/Executive



County Treasurer