

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

**For The Fiscal Year Ended
June 30, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT OF THE ADAIR COUNTY FISCAL COURT

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Adair County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Adair County Fiscal Court. In accordance with OMB Circular A-133, we have issued a qualified opinion on the compliance requirements that are applicable to Adair County's major federal program: Community Development Block Grant/State's Program (CFDA #14.228).

Financial Condition:

The Adair County Fiscal Court had total receipts of \$8,366,334 and disbursements of \$8,614,749 in fiscal year 2015. This resulted in a total ending fund balance of \$824,708, which is a decrease of \$98,415 from the prior year.

Report Comments:

- 2015-001 The Adair County Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Funds
- 2015-002 The Adair County Fiscal Court Did Not Budget, Record, Or Report Activity Of Two Federal Grants
- 2015-003 The Adair County Public Properties Corporation Did Not Maintain Proper Accounting Records
- 2015-004 The Adair County Fiscal Court Did Not Maintain Complete And Accurate Capital Asset Records
- 2015-005 The Adair County Fiscal Court Failed To Implement Controls Over Payroll Information Processed By A Service Organization
- 2015-006 The Adair County Fiscal Court Failed To Implement Sufficient Controls Over Expenditures
- 2015-007 The Adair County Fiscal Court Did Not Follow Proper Bid Laws and Regulations
- 2015-008 The Adair County Fiscal Court Did Not Properly Maintain Monthly Retirement Reports And Supporting Documentation For Employer Share Of Retirement
- 2015-009 The Adair County Jailer's Weak Internal Controls Over The Reconciliation Process Resulted In A Deficit In The Inmate Account
- 2015-010 The Adair County Jailer Did Not Maintain Proper Accounting Records For The Jail Commissary Fund
- 2015-011 The Adair County Jailer Did Not Submit Sales Tax Reports For Jail Commissary Sales Timely
- 2015-012 The Adair County Jailer Entered Into Contracts And Expended County Funds Without Fiscal Court Approval
- 2015-013 The Adair County Jailer Did Not Pay Invoices Of The Jail Commissary Fund Within Thirty Days
- 2015-014 The Adair County Fiscal Court Did Not Properly Reconcile The Revolving Payroll Account
- 2015-015 The Adair County Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Funds (See Financial Statement Finding 2015-001)
- 2015-016 The Adair County Fiscal Court Failed To Implement Sufficient Controls Over Expenditures (See Financial Statement Finding 2015-006)
- 2015-017 The Adair County Fiscal Court Did Not Budget, Record, Or Report Activity Of Two Federal Grants (See Financial Statement Finding 2015-002)

EXECUTIVE SUMMARY
AUDIT OF THE ADAIR COUNTY FISCAL COURT
June 30, 2015
(Continued)

Deposits:

The fiscal court's deposits as of August 29, 2014, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$750,048

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

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MIKE HARMON
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To the People of Kentucky
Honorable Matthew G. Bevin, Governor
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Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Adair County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Adair County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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



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Auditor's Responsibility (Continued)

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

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

As described more fully in Note 1, the financial statement is prepared by Adair County 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 Adair County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Adair County Fiscal Court as of June 30, 2015, 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 Adair County Fiscal Court. The budgetary comparison schedules, capital asset schedule, and the Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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.

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Other Matters (Continued)

Supplementary Information (Continued)

The accompanying budgetary comparison schedules, capital asset schedule, and Schedule of Expenditures of Federal Awards 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, capital asset schedule, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2016 on our consideration of 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 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 Questioned Costs included herein, which discusses the following report comments:

- 2015-001 The Adair County Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Funds
- 2015-002 The Adair County Fiscal Court Did Not Budget, Record, Or Report Activity Of Two Federal Grants
- 2015-003 The Adair County Public Properties Corporation Did Not Maintain Proper Accounting Records
- 2015-004 The Adair County Fiscal Court Did Not Maintain Complete And Accurate Capital Asset Records
- 2015-005 The Adair County Fiscal Court Failed To Implement Controls Over Payroll Information Processed By A Service Organization
- 2015-006 The Adair County Fiscal Court Failed To Implement Sufficient Controls Over Expenditures
- 2015-007 The Adair County Fiscal Court Did Not Follow Proper Bid Laws and Regulations
- 2015-008 The Adair County Fiscal Court Did Not Properly Maintain Monthly Retirement Reports And Supporting Documentation For Employer Share Of Retirement
- 2015-009 The Adair County Jailer's Weak Internal Controls Over The Reconciliation Process Resulted In A Deficit In The Inmate Account
- 2015-010 The Adair County Jailer Did Not Maintain Proper Accounting Records For The Jail Commissary Fund
- 2015-011 The Adair County Jailer Did Not Submit Sales Tax Reports For Jail Commissary Sales Timely
- 2015-012 The Adair County Jailer Entered Into Contracts And Expended County Funds Without Fiscal Court Approval
- 2015-013 The Adair County Jailer Did Not Pay Invoices Of The Jail Commissary Fund Within Thirty Days

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Other Reporting Required by *Government Auditing Standards* (Continued)

- 2015-014 The Adair County Fiscal Court Did Not Properly Reconcile The Revolving Payroll Account
- 2015-015 The Adair County Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Funds (See Financial Statement Finding 2015-001)
- 2015-016 The Adair County Fiscal Court Failed To Implement Sufficient Controls Over Expenditures (See Financial Statement Finding 2015-006)
- 2015-017 The Adair County Fiscal Court Did Not Budget, Record, Or Report Activity Of Two Federal Grants (See Financial Statement Finding 2015-002)

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 18, 2016

ADAIR COUNTY OFFICIALS

For The Year Ended June 30, 2015

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:

Holly Grimsley	Deputy Judge/Executive
Barry Corbin	County Treasurer
Gale Cowan	Finance Officer

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,048,833	\$	\$
In Lieu Tax Payments	57,541		
Excess Fees	180,019		
Licenses and Permits	27,620		
Intergovernmental	353,047	2,488,873	814,863
Charges for Services		269,180	66,536
Miscellaneous	359,654	7,322	62,452
Interest	546	908	
Total Receipts	<u>2,027,260</u>	<u>2,766,283</u>	<u>943,851</u>
DISBURSEMENTS			
General Government	735,760	9,196	
Protection to Persons and Property	85,572		1,277,302
General Health and Sanitation	146,025	13,837	
Social Services			
Recreation and Culture	5,221		
Roads		2,056,525	
Other Transportation Facilities and Services	108,714		
Airports			
Debt Service	94,795	157,271	66,971
Capital Projects	32,000		
Administration	542,103	166,870	260,938
Total Disbursements	<u>1,750,190</u>	<u>2,403,699</u>	<u>1,605,211</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>277,070</u>	<u>362,584</u>	<u>(661,360)</u>
Other Adjustments to Cash (Uses)			
Borrowed Money		150,000	
Transfers From Other Funds	397,273	200,000	485,000
Transfers To Other Funds	(801,225)	(397,273)	
Total Other Adjustments to Cash (Uses)	<u>(403,952)</u>	<u>(47,273)</u>	<u>485,000</u>
Net Change in Fund Balance	(126,882)	315,311	(176,360)
Fund Balance - Beginning	316,351	211,331	195,491
Fund Balance - Ending	<u>\$ 189,469</u>	<u>\$ 526,642</u>	<u>\$ 19,131</u>
Composition of Fund Balance			
Bank Balance	\$ 155,042	\$ 563,847	\$ 19,189
Deposit Error	37,029	(37,029)	
Less: Outstanding Checks	(2,602)	(176)	(58)
Fund Balance - Ending	<u>\$ 189,469</u>	<u>\$ 526,642</u>	<u>\$ 19,131</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, 2015
(Continued)

Local Government Economic Assistance Fund	Budgeted Funds				Unbudgeted Funds	
	Forest Fire Fund	Parks and Recreation Fund	911 Fund	Green River Animal Shelter Fund	Senior Citizen Fund	Career Readiness Center Project Fund
	\$ 2,026	\$	\$ 152,596	\$	\$	\$
148,625		9,543	111,077	25,252	373,670	795,521
10		21,165	34	3,539	150	
102		7	29			
<u>148,737</u>	<u>2,026</u>	<u>30,715</u>	<u>263,736</u>	<u>28,791</u>	<u>373,820</u>	<u>795,521</u>
26,859						
3,238	2,250		261,929			
13,783				101,175		
810						
22,322		22,756				
7,000						
103,199		17,494				
46,226		2,804	71,841	9,443	373,669	795,521
<u>223,437</u>	<u>2,250</u>	<u>43,054</u>	<u>333,770</u>	<u>110,618</u>	<u>373,724</u>	<u>795,521</u>
(74,700)	(224)	(12,339)	(70,034)	(81,827)	96	
	225	13,000	22,500	80,500		
	<u>225</u>	<u>13,000</u>	<u>22,500</u>	<u>80,500</u>		
(74,700)	1	661	(47,534)	(1,327)	96	
103,085	39	1,366	56,076	3,096	14,900	
<u>\$ 28,385</u>	<u>\$ 40</u>	<u>\$ 2,027</u>	<u>\$ 8,542</u>	<u>\$ 1,769</u>	<u>\$ 14,996</u>	<u>\$ 0</u>
\$ 30,885	\$ 40	\$ 2,027	\$ 8,542	\$ 2,169	\$ 14,996	\$ 108,700
(2,500)				(400)		(108,700)
<u>\$ 28,385</u>	<u>\$ 40</u>	<u>\$ 2,027</u>	<u>\$ 8,542</u>	<u>\$ 1,769</u>	<u>\$ 14,996</u>	<u>\$ 0</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, 2015
(Continued)

	<u>Unbudgeted Funds</u>		
	<u>Public Properties Corporation Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 1,203,455
In Lieu Tax Payments			57,541
Excess Fees			180,019
Licenses and Permits			27,620
Intergovernmental	914,425		6,034,896
Charges for Services			335,716
Miscellaneous		71,133	525,459
Interest		36	1,628
Total Receipts	<u>914,425</u>	<u>71,169</u>	<u>8,366,334</u>
DISBURSEMENTS			
General Government			771,815
Protection to Persons and Property			1,630,291
General Health and Sanitation			274,820
Social Services			810
Recreation and Culture		58,850	86,827
Roads			2,078,847
Other Transportation Facilities and Services			108,714
Airports			7,000
Debt Service	912,225		1,351,955
Capital Projects			1,201,190
Administration	2,200		1,102,480
Total Disbursements	<u>914,425</u>	<u>58,850</u>	<u>8,614,749</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>12,319</u>	<u>(248,415)</u>
Other Adjustments to Cash (Uses)			
Borrowed Money			150,000
Transfers From Other Funds			1,198,498
Transfers To Other Funds			(1,198,498)
Total Other Adjustments to Cash (Uses)			<u>150,000</u>
Net Change in Fund Balance		12,319	(98,415)
Fund Balance - Beginning		21,388	923,123
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 33,707</u>	<u>\$ 824,708</u>
Composition of Fund Balance			
Bank Balance	\$	\$ 34,264	\$ 939,701
Deposit Error			
Less Outstanding Checks		(557)	(114,993)
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 33,707</u>	<u>\$ 824,708</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, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the 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 are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(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.

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:

Senior Citizens Fund - The purpose of this fund is to account for activity associated with senior citizens building activity. The primary source of receipts for this fund is federal grants.

Career Readiness Center Project Fund - The purpose of this fund is a five year forgivable deferred loan to the Adair County Board of Education to construct a building for the ATC Career Readiness Center. The primary source of receipts for this fund is federal grants.

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, 2015
(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 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 this fund.

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 the Adair County Fiscal Court.

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

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(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 and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 29, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$750,048

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 397,273	\$ 397,273
Road Fund	200,000		200,000
Jail Fund	485,000		485,000
Forest Fire Fund	225		225
Parks and Recreation Fund	13,000		13,000
911 Fund	22,500		22,500
Green River Animal Shelter Fund	80,500		80,500
Total Transfers Out	<u>\$ 801,225</u>	<u>\$ 397,273</u>	<u>\$ 1,198,498</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 Fund

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

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the Jail Inmate Fund as of June 30, 2015 was (\$2,421).

Note 5. Long-term Debt

A. Refunding Bonds – Jail Facility Construction

The Kentucky Local Correctional Facilities Construction Authority (Authority), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$1,911,376 of revenue bonds at various interest rates, of which the county agreed to pay \$486,577 and a proportional share of interest. In October 2004, the Authority refunded these revenue bonds. As a result, the fiscal court entered into a second agreement on October 1, 2004 with the Authority in order to provide for the reduction of the fiscal court's rental payments due under the original agreement. On September 29, 2004, these bonds were refunded in the amount of \$243,950 at an interest rate of 6.34%. As of June 30, 2015, the principal balance was paid in full.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2007

The Adair County Public Properties Corporation (PPC), an agency and instrumentality of the Adair County Fiscal Court, issued the First Mortgage Revenue Bonds, Series 2007 for the purposes of acquisition, construction, installation, and equipping of the Adair County Courthouse Facility. On December 27, 2007, \$12,470,000 in bonds was issued at various interest rates. Since these bonds were issued at a discount of \$208,564, net proceeds were \$12,261,436. The PPC has entered into an agreement to lease the Adair County Courthouse Facility to the fiscal court for the amount of the bond payments. The fiscal court has a sublease with the Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Adair County Courthouse Facility. Principal and interest payments are due annually. As of June 30, 2015, the principal balance was \$9,155,000. Future debt service requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 545,000	\$ 367,162
2017	570,000	345,544
2018	590,000	322,344
2019	615,000	298,244
2020	640,000	273,144
2021-2025	3,625,000	948,822
2026-2028	2,570,000	171,937
Totals	<u>\$ 9,155,000</u>	<u>\$ 2,727,197</u>

C. Land

In February 2008, the 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, 2015 was \$21,665. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 7,839	\$ 930
2017	8,178	617
2018	5,648	231
Totals	<u>\$ 21,665</u>	<u>\$ 1,778</u>

D. Rescue Land

In February 2010, the 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 Rescue Squad. The principal was \$75,000, at a variable interest rate for a period of 60 months. Interest payments are due monthly and principal payments are due annually. As of June 30, 2015, the principal balance was paid in full.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

E. Christian Life Center Land

In May 2011, the 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, 2015 was \$92,861. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 14,828	\$ 3,929
2017	15,173	3,239
2018	15,522	2,539
2019	15,878	1,826
2020	16,242	1,098
2021	15,218	349
Totals	<u>\$ 92,861</u>	<u>\$ 12,980</u>

F. Trucks

On April 20, 2014, Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of dump trucks that will be utilized by the fiscal court until resold at auction. The two dump trucks were purchased for \$258,332 of which \$150,000 was financed. The principal was \$150,000, at a variable interest rate for a period of 18 months. One principal payment is due at the end of the lease and interest payments are due monthly. These dump trucks were sold for \$269,180 and the lease was paid off. As of June 30, 2015, the principal balance was paid in full.

G. 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 totaling \$250,000 and refinance the hospital equipment debt 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, 2015, the principal balance remaining for the energy savings portion and hospital portion was \$215,000 and \$1,555,000, respectively. Future principal and interest requirements are:

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

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

1. Energy Savings Portion

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 22,500	\$ 6,987
2017	25,000	6,256
2018	25,000	5,444
2019	25,000	4,631
2020	25,000	3,819
2021-2024	<u>92,500</u>	<u>7,069</u>
Totals	<u>\$ 215,000</u>	<u>\$ 34,206</u>

2. Hospital Portion

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 92,500	\$ 56,338
2017	97,500	53,331
2018	100,000	50,163
2019	102,500	46,913
2020	107,500	43,581
2021-2025	582,500	163,631
2026-2029	<u>472,500</u>	<u>48,431</u>
Totals	<u>\$ 1,555,000</u>	<u>\$ 462,388</u>

H. Mack Trucks

On April 20, 2015, the Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of dump trucks that will be utilized by the fiscal court until resold at auction. The two dump trucks were purchased for the amount of \$270,509 of which \$150,000 was financed. The principal was \$150,000, at a variable interest rate for a period of 18 months. One principal payment is due at the end of the lease and interest payments are due monthly. The principal outstanding as of June 30, 2015 was \$150,000. Future principal and interest requirements are:

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

H. Mack Trucks (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$	\$ 6,815
2017	150,000	2,272
Totals	<u>\$ 150,000</u>	<u>\$ 9,087</u>

I. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 9,711,675	\$	\$ 556,675	\$ 9,155,000	\$ 545,000
Financing Obligations	2,210,872	150,000	326,346	2,034,526	137,667
Total Long-term Debt	<u>\$11,922,547</u>	<u>\$ 150,000</u>	<u>\$ 883,021</u>	<u>\$11,189,526</u>	<u>\$ 682,667</u>

Note 6. Employee Retirement System

A. Plan Description

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

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 the plan. The fiscal court's contribution rate for nonhazardous employees was 17.67 percent.

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. The fiscal court's contribution rate for hazardous employees was 34.31 percent.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Employee Retirement System (Continued)

A. Plan Description (Continued)

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 account. Members contribute five percent (nonhazardous) and eight percent (hazardous) 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 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 member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The fiscal court's contribution for FY 2013 was \$523,106, FY 2014 was \$562,787, and FY 2015 was \$483,000.

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

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

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

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

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. 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, 2015
(Continued)

Note 6. Employee Retirement System (Continued)

A. Plan Description (Continued)

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

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.

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Adair County Fiscal Court's proportionate share of the net pension liability as of June 30, 2015 is:

	June 30, 2014	June 30, 2015
Non-Hazardous	\$ 2,025,000	\$ 1,790,000
Hazardous	1,545,000	1,383,000
Totals	<u>\$ 3,570,000</u>	<u>\$ 3,173,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publicly 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.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2015, the Adair County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Subsequent Events

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.

Note 10. Related Party Transactions

During the fiscal year ended June 30, 2015, the Adair County Fiscal Court paid a total of \$1,555 to Columbia Tire & Recapping Co., which is owned by the former County Judge/Executive's son. Also, the fiscal court purchased land in the amount of \$32,000 from Stotts Phelps McQueary Funeral Home in which the county judge/executive's cousin is married to one of the owners. The fiscal court also sold a lot to the same funeral home in the amount of \$42,501. Because of the nature of the relationships between the vendors and the former county judge/executive and the county judge/executive, these transactions are considered to be related party transactions.

Note 11. 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.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 12. 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, 2015, the Educational Development Revenue Bonds (Lindsey Wilson College Project), Series 2011, were outstanding, with a principal amount payable of \$8,610,000.

Note 13. Prior Period Adjustment

The beginning balance of the Jail Fund was increased by \$180,004 due to unexpended loan proceeds not reported in the prior year.

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,014,000	\$ 1,080,487	\$ 1,048,833	\$ (31,654)
In Lieu Tax Payments	45,000	55,512	57,541	2,029
Excess Fees	132,000	180,019	180,019	
Licenses and Permits	36,550	36,550	27,620	(8,930)
Intergovernmental	275,300	312,612	353,047	40,435
Miscellaneous	435,525	480,702	359,654	(121,048)
Interest	450	531	546	15
Total Receipts	1,938,825	2,146,413	2,027,260	(119,153)
DISBURSEMENTS				
General Government	706,138	791,110	735,760	55,350
Protection to Persons and Property	40,700	91,270	85,572	5,698
General Health and Sanitation	45,932	150,134	146,025	4,109
Social Services	500	500		500
Recreation and Culture	6,500	6,500	5,221	1,279
Other Transportation Facilities and Services	150,000	150,000	108,714	41,286
Debt Service	180,000	180,000	94,795	85,205
Capital Projects		32,000	32,000	
Administration	662,380	598,224	542,103	56,121
Total Disbursements	1,792,150	1,999,738	1,750,190	249,548
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	146,675	146,675	277,070	130,395
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	204,285	204,285	397,273	192,988
Transfers To Other Funds	(700,960)	(700,960)	(801,225)	(100,265)
Total Other Adjustments to Cash (Uses)	(496,675)	(496,675)	(403,952)	92,723
Net Change in Fund Balance	(350,000)	(350,000)	(126,882)	223,118
Fund Balance Beginning	350,000	350,000	316,351	(33,649)
Fund Balance - Ending	\$ 0	\$ 0	\$ 189,469	\$ 189,469

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,747,634	\$ 2,505,999	\$ 2,488,873	\$ (17,126)
Charges for Services	255,000	269,180	269,180	
Miscellaneous	3,500	7,322	7,322	
Interest	800	835	908	73
Total Receipts	<u>2,006,934</u>	<u>2,783,336</u>	<u>2,766,283</u>	<u>(17,053)</u>
DISBURSEMENTS				
General Government	18,000	9,196	9,196	
General Health and Sanitation	34,000	34,000	13,837	20,163
Roads	1,591,725	2,037,672	2,056,525	(18,853)
Debt Service	24,200	158,200	157,271	929
Administration	334,724	551,314	166,870	384,444
Total Disbursements	<u>2,002,649</u>	<u>2,790,382</u>	<u>2,403,699</u>	<u>386,683</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>4,285</u>	<u>(7,046)</u>	<u>362,584</u>	<u>369,630</u>
Other Adjustments to Cash (Uses)				
Borrowed Money			150,000	150,000
Transfers From Other Funds			200,000	200,000
Transfers To Other Funds	(204,285)	(204,285)	(397,273)	(192,988)
Total Other Adjustments to Cash (Uses)	<u>(204,285)</u>	<u>(204,285)</u>	<u>(47,273)</u>	<u>157,012</u>
Net Change in Fund Balance	(200,000)	(211,331)	315,311	526,642
Fund Balance Beginning	<u>200,000</u>	<u>211,331</u>	<u>211,331</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 526,642</u>	<u>\$ 526,642</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 649,400	\$ 718,908	\$ 814,863	\$ 95,955
Charges for Services	70,000	83,696	66,536	(17,160)
Miscellaneous	44,600	166,968	62,452	(104,516)
Total Receipts	<u>764,000</u>	<u>969,572</u>	<u>943,851</u>	<u>(25,721)</u>
DISBURSEMENTS				
Protection to Persons and Property	936,600	1,131,623	1,277,302	(145,679)
Debt Service	82,035	82,035	66,971	15,064
Administration	291,400	317,436	260,938	56,498
Total Disbursements	<u>1,310,035</u>	<u>1,531,094</u>	<u>1,605,211</u>	<u>(74,117)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(546,035)</u>	<u>(561,522)</u>	<u>(661,360)</u>	<u>(99,838)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	546,035	546,035	485,000	(61,035)
Total Other Adjustments to Cash (Uses)	<u>546,035</u>	<u>546,035</u>	<u>485,000</u>	<u>(61,035)</u>
Net Change in Fund Balance		(15,487)	(176,360)	(160,873)
Fund Balance Beginning		<u>15,487</u>	<u>195,491</u>	<u>180,004</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,131</u>	<u>\$ 19,131</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 140,000	\$ 148,626	\$ 148,625	\$ (1)
Miscellaneous		10	10	
Interest	100	100	102	2
Total Receipts	<u>140,100</u>	<u>148,736</u>	<u>148,737</u>	<u>1</u>
DISBURSEMENTS				
General Government	33,525	34,284	26,859	7,425
Protection to Persons and Property	6,200	6,199	3,238	2,961
General Health and Sanitation	17,650	15,650	13,783	1,867
Social Services	3,500	1,000	810	190
Recreation and Culture	5,500			
Roads	75,000	25,000	22,322	2,678
Airports	7,000	7,000	7,000	
Debt Service	19,500	103,200	103,199	1
Administration	72,225	59,488	46,226	13,262
Total Disbursements	<u>240,100</u>	<u>251,821</u>	<u>223,437</u>	<u>28,384</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(100,000)</u>	<u>(103,085)</u>	<u>(74,700)</u>	<u>28,385</u>
Net Change in Fund Balance	(100,000)	(103,085)	(74,700)	28,385
Fund Balance Beginning	<u>100,000</u>	<u>103,085</u>	<u>103,085</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 28,385</u>	<u>\$ 28,385</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

FOREST FIRE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,000	\$ 2,026	\$ 2,026	\$
Total Receipts	<u>2,000</u>	<u>2,026</u>	<u>2,026</u>	
DISBURSEMENTS				
Protection to Persons and Property	2,250	2,250	2,250	
Administration		65		65
Total Disbursements	<u>2,250</u>	<u>2,315</u>	<u>2,250</u>	<u>65</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(250)</u>	<u>(289)</u>	<u>(224)</u>	<u>65</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	250	250	225	(25)
Total Other Adjustments to Cash (Uses)	<u>250</u>	<u>250</u>	<u>225</u>	<u>(25)</u>
Net Change in Fund Balance		(39)	1	40
Fund Balance Beginning		<u>39</u>	<u>39</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 40</u>	<u>\$ 40</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

PARKS AND RECREATION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 25,000	\$ 25,000	\$ 9,543	\$ (15,457)
Miscellaneous	12,300	22,810	21,165	(1,645)
Interest		7	7	
Total Receipts	<u>37,300</u>	<u>47,817</u>	<u>30,715</u>	<u>(17,102)</u>
DISBURSEMENTS				
Recreation and Culture	34,150	31,450	22,756	8,694
Debt Service		17,494	17,494	
Administration	7,500	4,589	2,804	1,785
Total Disbursements	<u>41,650</u>	<u>53,533</u>	<u>43,054</u>	<u>10,479</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(4,350)</u>	<u>(5,716)</u>	<u>(12,339)</u>	<u>(6,623)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	4,350	4,350	13,000	8,650
Total Other Adjustments to Cash (Uses)	<u>4,350</u>	<u>4,350</u>	<u>13,000</u>	<u>8,650</u>
Net Change in Fund Balance		(1,366)	661	2,027
Fund Balance Beginning		<u>1,366</u>	<u>1,366</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,027</u>	<u>\$ 2,027</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 156,000	\$ 156,000	\$ 152,596	\$ (3,404)
Intergovernmental	110,000	111,078	111,077	(1)
Miscellaneous	100	100	34	(66)
Interest	40	40	29	(11)
Total Receipts	<u>266,140</u>	<u>267,218</u>	<u>263,736</u>	<u>(3,482)</u>
DISBURSEMENTS				
Protection to Persons and Property	268,175	289,447	261,929	27,518
Administration	103,025	88,907	71,841	17,066
Total Disbursements	<u>371,200</u>	<u>378,354</u>	<u>333,770</u>	<u>44,584</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(105,060)</u>	<u>(111,136)</u>	<u>(70,034)</u>	<u>41,102</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	55,060	55,060	22,500	(32,560)
Total Other Adjustments to Cash (Uses)	<u>55,060</u>	<u>55,060</u>	<u>22,500</u>	<u>(32,560)</u>
Net Change in Fund Balance	(50,000)	(56,076)	(47,534)	8,542
Fund Balance Beginning	50,000	56,076	56,076	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,542</u>	<u>\$ 8,542</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

GREEN RIVER ANIMAL SHELTER FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 16,900	\$ 25,252	\$ 25,252	\$
Miscellaneous	9,400	9,935	3,539	(6,396)
Total Receipts	<u>26,300</u>	<u>35,187</u>	<u>28,791</u>	<u>(6,396)</u>
DISBURSEMENTS				
General Health and Sanitation	99,365	107,543	101,175	6,368
Administration	22,200	26,005	9,443	16,562
Total Disbursements	<u>121,565</u>	<u>133,548</u>	<u>110,618</u>	<u>22,930</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(95,265)</u>	<u>(98,361)</u>	<u>(81,827)</u>	<u>16,534</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	95,265	95,265	80,500	(14,765)
Total Other Adjustments to Cash (Uses)	<u>95,265</u>	<u>95,265</u>	<u>80,500</u>	<u>(14,765)</u>
Net Change in Fund Balance		(3,096)	(1,327)	1,769
Fund Balance Beginning		<u>3,096</u>	<u>3,096</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,769</u>	<u>\$ 1,769</u>

ADAIR COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

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 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.

Note 2. Excess of Disbursements Over Appropriations

Two funds exceeded budgeted appropriations as noted below for the reasons listed.

Road Fund

Roads Variance With Final Budget	\$ (18,853)
To adjust for unbudgeted KACoLT proceeds paid directly to vendor by lender for portion of dump trucks purchased	150,000
Roads Variance With Final Budget Without KACoLT Proceeds	\$ 131,147

Jail Fund

Protection to Persons and Property Variance With Final Budget	\$ (145,679)
To adjust for unbudgeted prior year surplus from KACoLT proceeds paid directly to vendor by lender for Jail building improvements	180,004
Protection to Persons and Property Variance With Final Budget Without KACoLT Proceeds	\$ 34,325

Note 3. Unbudgeted Funds

The Adair County Fiscal Court did not budget the funds of the Senior Citizens Fund or the Career Readiness Center Project Fund as required by the laws of Kentucky.

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ADAIR COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

ADAIR COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Land	\$ 2,136,845	\$ 32,000	\$ 42,501	\$ 2,126,344
Buildings and Building Improvements	16,172,071	351,744		16,523,815
Building Improvements In Progress		373,669		373,669
Vehicles and Equipment	1,582,209	117,311		1,699,520
Other Equipment	421,619	7,500		429,119
Construction In Progress	70,349	281,395	351,744	
Infrastructure	11,889,898	1,043,783		12,933,681
Total Capital Assets	\$ 32,272,991	\$ 2,207,402	\$ 394,245	\$34,086,148

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

June 30, 2015

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

Note 2. Prior Period Adjustment

The beginning balance for construction in progress was restated by \$70,349 due to jail energy efficient upgrades not reported in the prior year.

Note 3. Assets Held For Resale

In April 2014, two Mack trucks were purchased with an acquisition cost of \$258,332. The County paid \$108,332 from the Road Fund and then obtained a financing obligation from the Kentucky Association of Counties Leasing Trust in the amount of \$150,000. These trucks are not included in capital assets, as Adair County does not intend to hold the assets beyond one year. In fiscal year 2015, the fiscal court resold these trucks for \$269,180.

In March 2015, two 2016 Mack trucks were purchased with an acquisition cost of \$270,509. The County paid \$120,509 from the Road Fund and then obtained a financing obligation from the Kentucky Association of Counties Leasing Trust in the amount of \$150,000. These trucks are not included in capital assets, as Adair County does not intend to hold the assets beyond one year. These trucks were still in the County's possession as of June 30, 2015.

**ADAIR COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2015

ADAIR COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2015

Federal Grantor CFDA #	Program Title	Pass-Through Grantor's Number	Expenditures
<u>U. S. Department of Agriculture</u>			
<i>Direct Program</i>			
10.923	Emergency Watershed Protection Program	EWP:68-5C16-15-048	\$ 5,486
Total U.S. Department of Agriculture			\$ 5,486
<u>U. S. Department of Housing and Urban Development</u>			
<i>Passed-Through State Department for Local Government:</i>			
14.228	Community Development Block Grants/State's Program	13-062	* \$ 497,500
14.228	Community Development Block Grants/State's Program	13-002	* 373,669
Total U.S. Department of Housing and Urban Development			\$ 871,169
<u>Appalachian Regional Commission</u>			
<i>Passed-Through State Department for Local Government:</i>			
23.001	Appalachian Regional Development	KY-17792	\$ 298,021
Total Appalachian Regional Commission			\$ 298,021
<u>U.S. Department of Homeland Security</u>			
<i>Passed-Through State Department of Military Affairs:</i>			
97.042	Emergency Management Performance Grants	PON2 0951400000351	\$ 2,782
97.042	Emergency Management Performance Grants	PON2 0951000006541	11,279
97.067	Homeland Security Grant Program	PO2 094140002670 1	10,000
Total U.S. Department of Homeland Security			\$ 24,061
Total Expenditures of Federal Awards			\$ 1,198,737

*Tested as Major Program

ADAIR COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Adair County Fiscal Court and 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 Government Accounting Standards Board. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 - Determination of Major Program

A Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2015 or were deemed high risk. There was one Type A program. The major program tested was CFDA #14.228 Community Development Block Grant/State's Program.

Note 3 - Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2015.

Note 4 - Appalachian Regional Development Grant

The grant received from Appalachian Regional Commission was passed through the U. S. Department of Housing and Urban Development before being passed through the State Department for Local Government to 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***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Adair County Fiscal Court for the fiscal year ended June 30, 2015, 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 May 18, 2016.

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 questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 questioned costs as items 2015-001, 2015-02, 2015-003, 2015-004, 2015-005, 2015-006, 2015-008, 2015-009, and 2015-010 to be material weaknesses.



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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-014 to be a significant deficiency.

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 questioned costs as items 2015-001, 2015-002, 2015-004, 2015-006, 2015-007, 2015-009, 2015-010, 2015-011, 2015-012, and 2015-013.

County Judge/Executive's Response to Findings

The Adair County Judge/Executive's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Adair County Judge/Executive'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,



Mike Harmon
Auditor of Public Accounts

May 18, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited the Adair County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Adair County Fiscal Court's major federal programs for the year ended June 30, 2015. The Adair County Fiscal Court's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Adair County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Adair County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Adair County Fiscal Court's compliance with those requirements.

Basis for Qualified Opinion on Community Development Block Grant/State Program

As described in the accompanying Schedule of Findings and Questioned Costs, the Adair County Fiscal Court did not comply with requirements regarding CFDA 14.228 Community Development Block Grant/State Program as described in finding numbers 2015-016 for Procurement and 2015-017 for Reporting.



Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133
(Continued)

Basis for Qualified Opinion on Community Development Block Grant/State Program (Continued)

Compliance with such requirements is necessary, in our opinion, for the Adair County Fiscal Court to comply with the requirements applicable to that program.

Qualified Opinion on Community Development Block Grant/State Program

In our opinion, except for the noncompliances described in the Basis for Qualified Opinion paragraph, the Adair County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grant/State Program for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-015. Our opinion on each major federal program is not modified with respect to these matters.

The Adair County Judge/Executive's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Adair County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the Adair County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Adair County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Adair County Fiscal Court's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination or deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133
(Continued)

Report on Internal Control over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs at items 2015-015, 2015-016, and 2015-2017 that we consider to be material weaknesses.

The Adair County Judge/Executive's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Adair County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

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Mike Harmon
Auditor of Public Accounts

May 18, 2016

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**ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2015

**ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2015

Section I: Summary of Auditor's Results

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Type of auditor's report issued on compliance for major programs: Qualified

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a) ?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

CFDA Numbers and Name of Federal Program or Cluster

CFDA #14.228 Community Development Block Grant/State Program
--

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit

2015-001 The Adair County Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Funds

The Adair County Fiscal Court lacks adequate internal controls over federal funds. The fiscal court hired the Lake Cumberland Area Development District (LCADD) to act as grant administrator over Community Development Block Grant (CDBG) awards in the amount of \$1,000,000 and Appalachian Regional Commission (ARC) awards totaling \$298,024. During fiscal year 2015, CDBG funds totaling \$871,169 and ARC funds totaling \$298,021 were expended. The fiscal court placed complete reliance upon the LCADD for ensuring compliance with all applicable federal requirements. These federal funds were not budgeted by the fiscal court and no grant records were maintained at the county level (See Finding 2015-002). Additionally, grant expenditures were not reviewed and approved for payment by the fiscal court (See Finding 2015-006). OMB A-133 section 300(b) states that it is the auditee's responsibility to maintain internal controls over the Federal programs that provide reasonable assurance that the auditee is in compliance with the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. The fiscal court relied solely on LCADD to monitor all applicable compliance requirements and had no controls in place to ensure they were met. The fiscal court also had little to no knowledge of what was being done at the LCADD to ensure compliance.

The lack of monitoring resulted in material noncompliance with two compliance requirements, procurement and reporting. Noncompliances can result in the fiscal court being responsible for repaying of federal funds. Additionally grant agreements for the CDBG funds require the fiscal court to monitor grant activities for future years to ensure facilities constructed with federal funds are used for the intended purposes. We recommend the fiscal court implement adequate internal controls to ensure federal compliance requirements are met.

County Judge/Executive Michael Lee Stevens's Response: "In the past grant administration has been outsourced to the LCADD who controlled the application, awarding, and processing. We were under the impression LCADD monitored for compliance and all reports was LCADD responsibility. Any future grants will be maintained by the CJE office and monitored by treasurer for content provisions, agreements, & compliance."

2015-002 The Adair County Fiscal Court Did Not Budget, Record, Or Report Activity Of Two Federal Grants

The fiscal court contracted with the Lake Cumberland Area Development District (LCADD) to administer the Appalachian Regional Development and Community Development Block grants. The fiscal court maintained separate bank accounts for these funds, but these funds were not included in the original budget or any amendments to the budget. In addition, the receipt and disbursement of the federal grants were not recorded on the ledgers or reported on quarterly financial reports. The fiscal court was under the impression since they contracted with the LCADD, they did not need to budget, record, or report these funds. However, the fiscal court cannot contractually give away their responsibilities. As a result, total receipts and disbursements were materially understated by \$1,169,341 and \$1,169,245, respectively, on the fourth quarter financial report. In addition, the beginning and ending balances for the Senior Citizens Fund were misstated by \$14,900 and \$14,996, respectively, on the fourth quarter financial report.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-002 The Adair County Fiscal Court Did Not Budget, Record, Or Report Activity Of Two Federal Grants (Continued)

According to KRS 68.240(1), “The county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year.” All funds of the fiscal court are required to be budgeted and reported on the quarterly financial reports according to the *County Budget Preparation and State Local Officer Policy Manual*, issued by the Department for Local Government (DLG). KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. In addition, all funds should be recorded in receipts and appropriation ledgers. The fiscal court may have to amend the budget to reflect the receipt and expenditure of funds received through a federal grant if that grant was not part of the original budget.

We recommend the fiscal court ensure all funds are properly budgeted or prepare budget amendments if necessary. We also recommend the fiscal court record all funds to the ledgers and report the receipt and disbursement of all funds as well as the beginning and ending fund balances on the quarterly financial reports.

County Judge/Executive Michael Lee Stevens’s Response: “Implementing new accounting process which will include separate accounts and line items to monitor and record all receipts & expenditures for proper budgeting of Grant funds.”

2015-003 The Adair County Public Properties Corporation Did Not Maintain Proper Accounting Records

The Adair County Public Properties Corporation did not maintain the proper accounting records for the Public Properties Corporation (PPC) fund. The PPC made all bank statements available, but they did not maintain receipt and disbursements ledgers or prepare a financial statement and bank reconciliation. According to the county treasurer, he thought he did prepare a financial statement for fiscal year 2015 for the PPC fund. However, the consolidated statement made available to the auditors reported amounts for fiscal year 2014. As a result, the receipts and disbursements on the financial statement for fiscal year 2015 were materially adjusted by \$914,425 each. Since the fiscal court is financially accountable and legally obligated for the debt of the PPC, the PPC fund is an unbudgeted fund of the fiscal court. The PPC should maintain receipts and disbursements ledgers, reconcile the account monthly, and prepare a financial statement. We recommend the PPC prepare receipts and disbursements ledgers, reconcile the account monthly, and prepare a financial statement for the PPC fund.

County Judge/Executive Michael Lee Stevens’s Response: “Adding new process to ensure proper recording of all receipts and expenditures for PPC.”

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-004 The Adair County Fiscal Court Did Not Maintain Complete And Accurate Capital Asset Records

The fiscal court did not have a completed capital asset schedule listing for the fiscal year ending June 30, 2015. A list of capital asset additions and disposals was not maintained. The fiscal court lacks adequate controls over reporting of capital assets. Due to this lack of controls and unclear responsibilities over this area, physical inventories could not be reconciled to the capital asset listing since the listing was not prepared.

Capital asset additions in the amount of \$1,926,007 and construction in progress in the amount of \$281,395 were not included on the capital asset schedule. The additions not included consisted of a \$32,000 land acquisition for the E-911 building, \$351,744 in building improvements to the jail, \$373,669 in building improvements in progress to the Christian Life Center/Senior Citizens Center, seven vehicles and equipment purchased by various departments totaling \$124,811, and \$1,043,783 in infrastructure. Two pieces of equipment purchased could not be traced to the fiscal court's insurance policy. The amount spent on the Christian Life Center/Senior Citizen Project was not ever included on the capital asset schedule; therefore, auditors were unable to determine the actual amount spent for improvements in prior years. In addition, a capital asset disposal of \$42,501 for land sold was not removed from the capital asset schedule. If construction in progress for energy efficiency upgrades to the jail had been included on the capital asset schedule, they should have been included in disposals and reclassified as building improvements since the upgrades were completed in the current fiscal year. By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset schedule. The fiscal court also cannot properly determine insurance needs without proper documentation being maintained.

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 *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. The manual further states that capital asset records should include a description of the asset, historical cost, date of acquisition, date of disposal, and proceeds from sale or disposal of assets.

We recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with the Department for Local Government's requirements. Invoices for any asset acquisitions and documentation for any asset disposals should be kept on file and used to maintain the capital asset schedule. In addition, the fiscal court should reconcile capital asset records to actual physical inventory with each department at least yearly to ensure all assets meeting the fiscal court's capitalization policy threshold are included and accurate.

County Judge/Executive Michael Lee Stevens's Response: "Treasurer will work with staff to monitor and update Capital Assets list. It will be reconciled annually and reviewed by CJE and treasurer."

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-005 The Adair County Fiscal Court Failed To Implement Controls Over Payroll Information Processed By A Service Organization

The fiscal court uses a local accountant to process all payroll transactions. The accountant is considered to be a service organization. At the end of each payroll period, the accountant receives the necessary information from the finance officer to process the payroll including the official's salary information, hours for which each employee is to be paid, hourly rates, and a listing of required and authorized withholdings. The accountant processes this information and generates a payroll report which the fiscal court relies on to issue payroll checks and transfer monies from respective funds to the payroll revolving account. In addition, the accountant prepares all monthly and quarterly withholding reports which the fiscal court relies upon to pay state, city, and federal withholding amounts due; maintains individual earnings records; and prepares W-2 forms for the fiscal court employees. The fiscal court had no evidence of any controls in place to ensure amounts calculated by the accountant are accurate. Payroll disbursements are material to the fiscal court's financial statement representing approximately 40% of total disbursements for fiscal year 2015.

The fiscal court relies on controls of the service organization to prevent or detect misstatements; therefore, they did not implement controls over payroll. Without adequate controls in place to ensure all information processed by the accountant is accurate, the risk that payroll disbursements could be misstated or fraud relating to payroll could occur increases. If a service organization is used to process transactions on behalf of an entity, the entity should establish controls over the submission and receipt of the information that could prevent, or detect and correct, misstatements. Even though this information is generated by the service organization, the entity is responsible for the accuracy of that information because it is included in their financial statements.

We recommend the fiscal court implement internal controls to ensure that all calculations for payroll disbursements are correct. The fiscal court could, at least on a spot basis, review and recalculate amounts on the report generated by the accountant to ensure their accuracy. This review should be documented.

County Judge/Executive Michael Lee Stevens's Response: "Treasurer will balance all payroll records processed by accountant for accuracy. Including employee earnings, taxes, quarterly and annually and W-2's. This moved from Finance Officer duties immediately."

2015-006 The Adair County Fiscal Court Failed To Implement Sufficient Controls Over Expenditures

Controls associated over disbursements were not operating as intended. Disbursements were not properly authorized, supporting documentation was not maintained and appropriate, and proper procedures were not followed. These deficiencies were able to occur due to lack of monitoring of controls and diminish the effectiveness of the controls put in place over disbursements by the fiscal court. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-006 The Adair County Fiscal Court Failed To Implement Sufficient Controls Over Expenditures
 (Continued)

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

- The fiscal court approved claims and made appropriations in excess of budgeted appropriation amounts during the fiscal year without requesting budget transfers prior to overspending. Nine instances were noted where claims were paid even though the budget line had a negative balance when payment was approved and made.
- Fifteen instances were noted where disbursements were made and not approved by the fiscal court prior to payment or included on the annual standing order to pre-approve certain recurring expenses. One of these instances included a payment made for health insurance and 11 of these instances were for federal grant disbursements in the amount of \$871,169.
- Two disbursements were not paid within 30 days. One of these was a debt payment made on the Rescue Land which resulted in a late payment of \$241.
- Five instances were noted where detailed receipts were not maintained and paid by statement or sufficient supporting documentation was not maintained to determine what was purchased.
- Three credit card disbursements totaling \$4,397 did not have supporting documentation or invoices to support transactions due to the finance officer not being able to find the file folder for this vendor.
- One grant disbursement totaling \$34,996 did not have supporting documentation for auditors to review.
- Six instances were noted where disbursements did not have purchase orders attached to the invoice.
- Numerous instances were noted where purchase orders were dated after the date of the invoices or receipts; therefore, items could have been ordered or services rendered without prior approval to ensure adequate funds were available in each account.

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 *County Budget Preparation and State Local Finance Officer Policy Manual*, "[p]urchases shall not be made prior to approval by the judge/executive (or designee), and/or a department head." In addition, KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." KRS 68.275 requires claims that are within budget line items and authorized by the fiscal court be paid by the county judge and co-signed by the county treasurer. 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 days of being received.

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

County Judge/Executive Michael Lee Stevens's Response: "Treasurer will monitor budget line items for funds availability of funds budgeted prior to issuing PO. Will ensure Fiscal Court Approval Prior to processing expenditures and processing of payments."

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-007 The Adair County Fiscal Court Did Not Follow Proper Bid Laws and Regulations

The fiscal court did not bid purchases from seven vendors for over \$20,000 each. These disbursements during the current fiscal year consisted of crushed stone, petroleum products, chipping oil, and two Mack trucks purchased for the Road Department at \$270,509. These purchases also included food and cleaning supplies for the jail and a \$351,744 energy efficiency upgrade at the jail. Additionally, the fiscal court did not provide any bid documentation for one vendor used to purchase a \$34,996 skid steer for the Recycling Center. Asphalt and a boom mower for the Road Department were properly bid, but the fiscal court did not provide the newspaper advertisements for these bids.

The fiscal court did bid some purchases over \$20,000, but sufficient internal controls were not in place over the bidding process to ensure items were not purchased from vendors without first advertising or receiving bids when necessary on all purchases required to be bid. By limiting competition or not receiving bids at all, the 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. Maintaining proper bid documentation also ensures all bids are considered on an equal basis and ensures all bids meet the minimum specifications of the fiscal court.

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 the 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. We further recommend the fiscal court maintain all required bid documentation to improve controls over the bidding process.

County Judge/Executive Michael Lee Stevens's Response: "CJE & Treasurer will work together to ensure proper bid process in place, including bid documentation, advertising, and awarding bids compliant with KRS 424.260 Dept. in treasurer's office."

2015-008 The Adair County Fiscal Court Did Not Properly Maintain Monthly Retirement Reports And Supporting Documentation For Employer Share Of Retirement

The fiscal court does not have support for the employer share of retirement reported to the Kentucky Retirement System (KRS). The employer share of retirement is not reported on the payroll register or any other reports in order to verify the accuracy of the monthly retirement reports prepared by the finance officer. In addition, six monthly retirement reports needed for reconciling the county's net pension liability could not be located. Employer share of retirement is automatically calculated when the monthly wages for each employee are entered into the KRS report template online. The fiscal court relies on this calculation to determine how much to remit to KRS monthly.

**ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)**

Section II: Findings - Financial Statement Audit (Continued)

2015-008 The Adair County Fiscal Court Did Not Properly Maintain Monthly Retirement Reports And Supporting Documentation For Employer Share Of Retirement (Continued)

Without proper supporting documentation, amounts could be improperly reported and remitted to KRS. In addition, the actual retirement payments reported per the fiscal court's fourth quarter financial report did not reasonably reconcile to the amount used for the fiscal court's net pension liability calculations. Good internal controls dictate payroll reports are adequately supported, compared to the disbursements ledger, and reviewed for accuracy.

We recommend the fiscal court maintain retirement reports and supporting documentation each month. We also recommend the fiscal court implement procedures to account for the employer share of retirement outside the retirement database. Wages and employee and employer contributions per the retirement reports should be reconciled to supporting documentation each month to ensure their accuracy.

County Judge/Executive Michael Lee Stevens's Response: "Treasurer will create separate worksheet for retirement report, balanced & checked monthly for accuracy. Documents kept in treasurer's office and balanced to KRS. This moved from finance officer duties immediately."

2015-009 The Adair County Jailer's Weak Internal Controls Over The Reconciliation Process Resulted In A Deficit In The Inmate Account

Reconciliations for the Inmate Account were not prepared correctly. They did not include any deposits in transit, receivables, or liabilities, so they did not accurately reflect the account balance. 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. The monthly bank reconciliations should include the ending bank balance, deposits-in-transit, receivables, outstanding checks, and all other liabilities. The remaining book balance should agree to the total of all inmate balances. The inmate balances as of June 30, 2015 totaled \$374. The bank reconciliation prepared for June 30, 2015 had an ending reconciled balance of \$11,871. However, receivables totaling \$2,161 were not included on the reconciliation. Additionally, one voided check in the amount of \$5,183 was included as outstanding in error, and liabilities totaling \$21,262 were not included resulting in a deficit book balance of \$2,421 in the Inmate Account.

As of December 8, 2014, the Inmate Account was overdrawn by \$91, and the bank charged an overdraft fee of \$25. The total of the inmates' balances per jail records on December 8, 2014 was \$388. At a minimum, the Inmate Account should have had \$388 in the bank account at that time. In addition, payments due to the fiscal court were reduced in six different months by a total of \$475. Per the bookkeeper, the payments were reduced to avoid overdrawing the Inmate Account. These unpaid amounts are included in the liabilities amount reported above. Additionally sales taxes totaling \$1,763 due for April through June 2015, which should have been paid out of the Inmate Account, were paid out of the Jail Commissary Fund due to the insufficient funds in the Inmate Account.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-009 The Adair County Jailer's Weak Internal Controls Over The Reconciliation Process Resulted In A Deficit In The Inmate Account (Continued)

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. When these items are not accurately included, the jailer cannot be sure that the Inmate Account does not have a negative book balance, and the likelihood increases that fraud could occur and go undetected.

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. We also recommend the fiscal court transfer \$2,421 from the fiscal court's Jail Fund to the jailer's Inmate Account to eliminate the deficit.

County Judge/Executive Michael Lee Stevens's Response: No Response.

Jailer Joey White's Response: "Our contractors (Name Withheld), was not pulling the money out of the Kiosk on a timely manner. It was only being pulled once a week Resulting in a negative balance at times for accounts. This is why sometimes there were no funds available at times. We have changed systems and now are with a different company that is handling all accountables making sure everything is accounted for. The jailer and paid administration is checking this information as well."

2015-010 The Adair County Jailer Did Not Maintain Proper Accounting Records For The Jail Commissary Fund

During the fiscal year ended June 30, 2015, two bank accounts were maintained which had activity related to the Jail Commissary Fund. These included the Jail Commissary Account which is used to account for the receipt and disbursement of profits from commissary sales and the Inmate Account which is used to account for inmates' monies as well as commissary sales, purchase of commissary inventory, and payment of sales tax. Although computerized records were maintained for the both accounts, jail personnel did not have a sufficient understanding of the computer system to print out detailed receipts and disbursements ledgers. Although deposits were made, receipts were not batched and daily cash checkout sheets were not prepared for the Jail Commissary Account. Receipts were batched and daily cash checkout sheets were prepared for the Inmate Account for July through December 2014 only. However, these daily cash checkout sheets did not include batched totals, and deposits were not made daily.

**ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)**

Section II: Findings - Financial Statement Audit (Continued)

2015-010 The Adair County Jailer Did Not Maintain Proper Accounting Records For The Jail Commissary Fund (Continued)

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the State Local Finance Officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which are to be used by jailers for jail commissary funds maintained pursuant to KRS 441.135. This manual includes the following accounting and reporting standards:

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

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

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

JAIL COMMISSARY SUMMARY AND RECONCILIATION - The year to date summary section of this report will provide a cash balance at anytime [sic] during the fiscal year. Information for this section is obtained from totaled categories from the receipt and disbursement journals. A monthly cash balance shall be maintained. The Reconciliation section of this report reconciles the bank balance to the cash balance. ...A monthly cash reconciliation shall be maintained. This report may be used for the year-end report submitted to county treasurer pursuant to KRS 441.135(2).

We recommend the jailer comply with the guidelines prescribed by the State Local Finance Officer by maintaining at least the required minimum records. Daily cash checkout sheets should be prepared and deposits should be made intact daily. In addition, we recommend jail personnel obtain an adequate understanding of the computerized systems used in order to prepare monthly and annual reports that comply with these minimum requirements.

County Judge/Executive Michael Lee Stevens's Response: No Response.

Jailer Joey White's Response: "With our new commissary system through (Name Withheld) things are more user friendly so there is a better understanding of the monthly reports and reconciliations."

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-011 The Adair County Jailer Did Not Submit Sales Tax Reports For Jail Commissary Sales Timely

Quarterly sales tax reports for three quarters of the fiscal year ended June 30, 2015 were not submitted timely. Reports for the quarters ended December 31, 2014, March 31, 2015, and June 30, 2015 were prepared and submitted on April 9, 2015, May 20, 2015, and November 24, 2015, respectively. As a result of the current jailer's failure to prepare and submit these reports timely, penalties totaling \$62 were paid from the Jail Commissary Fund during the fiscal year ended June 30, 2015. These penalties were for the quarters ended December 31, 2014 and March 31, 2015. As of February 3, 2016, the jailer had not received any notice of additional penalties due for the quarter ended June 30, 2015. KRS 139.540 and KRS 139.550 requires 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 Adair County Jailer is required to submit 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 by submitting quarterly sales tax reports timely. Additionally we recommend the fiscal court transfer \$62 from the fiscal court's Jail Fund to the jailer's Jail Commissary Fund to reimburse for the penalties paid.

County Judge/Executive Michael Lee Stevens's Response: No Response.

Jailer Joey White's Response: "The reason for having to write the check out of commissary funds was due to our former contractor not having money in the account in order to write the check because the Kiosk was not being pulled but one time a week."

2015-012 The Adair County Jailer Entered Into Contracts And Expended County Funds Without Fiscal Court Approval

The jailer entered into two contracts without obtaining the fiscal court's approval. On March 5, 2015, the jailer entered into a 48 month agreement with a telecommunications vendor to provide inmate telephone services. On May 9, 2015, the jailer entered into a contract with another vendor to provide jail commissary services.

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 the 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 48 month period. If the agreement is terminated early, the prorated amount will be due back to the vendor within 15 days of termination notification. During the fiscal year ended June 30, 2015, the jailer ordered supplies, computer equipment, computer software, and cameras at a total cost of \$8,573. The jailer subsequently ordered and received an emergency restraint chair at a cost of \$1,950, and a bumper cover and paint job for a 2002 Ford vehicle at a cost of \$1,200. These items were paid for by the vendor and the cost was deducted from the grant balance.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-012 The Adair County Jailer Entered Into Contracts And Expended County Funds Without Fiscal Court Approval (Continued)

Although the jailer can sign contracts, he 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 the fiscal court's approval. KRS 68.020(1) states, "The county treasurer shall receive and receipt for all money due the county from its collecting officers..." KRS 441.225(1) 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." The jailer was unaware of these legal requirements until they were brought to his attention by the auditor.

We recommend items ordered by the jailer and charged to the tech grant be paid from the fiscal court's Jail Fund after fiscal court approval. 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 abstain from entering into contracts without obtaining the fiscal court's approval.

County Judge/Executive Michael Lee Stevens's Response: No Response.

Jailer Joey White's Response: "Jailer was unaware of this until it was brought to his attention by the auditor. Since then proper action has been taken and approved by the fiscal court."

2015-013 The Adair County Jailer Did Not Pay Invoices Of The Jail Commissary Fund Within Thirty Days

Eight invoices totaling \$3,854 of the Jail Commissary Fund were not paid within 30 days. These invoices were for inmate purchases of commissary items during May and June 2015. The vendor was paid 49 to 75 days after the invoice date. Per the bookkeeper, invoices were not paid timely because sufficient funds were not available in the Inmate Account. KRS 65.140 states, "(2)Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid 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. (3)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 the jailer comply with KRS 65.140 by paying invoices within thirty working days.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-013 The Adair County Jailer Did Not Pay Invoices Of The Jail Commissary Fund Within Thirty Days
(Continued)

County Judge/Executive Michael Lee Stevens's Response: No Response.

Jailer Joey White's Response: "The invoices were not paid in a timely manner due to (Name Withheld) not pulling money from Kiosk in a timely manner, Therefore resulting in bills being paid late. We have since then changed to (Name Withheld) which is working better and all bills are being paid in a timely manner"

2015-014 The Adair County Fiscal Court Did Not Properly Reconcile The Revolving Payroll Account

The payroll revolving account was not properly reconciled. As of June 30, 2015, the book balance in the payroll account was \$8,629, after accounting for all receivables and liabilities. The county treasurer prepared a monthly bank reconciliation, but the reconciliation did not include all liabilities to ensure the proper amounts were transferred from each fund. By not performing this reconciliation, monies that should be allocated to their respective funds remain in the payroll account, and these funds are understated. The payroll revolving account is a clearing account and should be reconciled to a zero balance at the end of each pay period. Therefore, only the exact amount needed to cover payroll disbursements should be transferred to the payroll revolving account.

We recommend the county treasurer reconcile the payroll revolving account and determine what the unexplained \$8,629 balance is and to which fund(s) it should be transferred. In the future, the county treasurer should only transfer enough funds to meet payroll obligations each pay period. We further recommend the county treasurer provide written documentation of the reconciliation between the transfer checks and payroll register.

County Judge/Executive Michael Lee Stevens's Response: "Treasurer will reconcile payroll account & ensure accurate balance for funds transferred between all funds."

ADAIR COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit

2015-015 The Adair County Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Funds (See Financial Statement Finding 2015-001)

Federal Program: CFDA 14.228 Community Development Block Grant/State's Program

Name of Federal Agency: U.S. Department of Housing and Urban Development

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis Bacon Act; Matching, Level of Effort, Earmarking; Period of Availability of Federal Funds; Procurement, Suspension, and Debarment; and Reporting

Type of Finding: Material Weakness

Amount of Questioned Costs: \$0

2015-016 The Adair County Fiscal Court Failed To Implement Sufficient Controls Over Expenditures (See Financial Statement Finding 2015-006)

Federal Program: CFDA 14.228 Community Development Block Grant/State's Program

Name of Federal Agency: U.S. Department of Housing and Urban Development

Compliance Requirements: Procurement

Type of Finding: Material Weakness

Amount of Questioned Costs: \$0

Opinion: Adair County Fiscal Court did not comply with federal requirements regarding this compliance requirement resulting in a Qualified Opinion.

2015-017 The Adair County Fiscal Court Did Not Budget, Record, Or Report Activity Of Two Federal Grants (See Financial Statement Finding 2015-002)

Federal Program: CFDA 14.228 Community Development Block Grant/State's Program

Name of Federal Agency: U.S. Department of Housing and Urban Development

Compliance Requirements: Reporting

Type of Finding: Material Weakness

Amount of Questioned Costs: \$0

Opinion: Adair County Fiscal Court did not comply with federal requirements regarding this compliance requirement resulting in a Qualified Opinion.

Section IV: Summary Schedule of Prior Audit Findings

None.

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

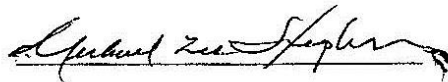
ADAIR COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
ADAIR COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

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

