

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

**For The Year Ended
June 30, 2019**



**MIKE HARMON
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
ADAIR COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT.....	10
BUDGETARY COMPARISON SCHEDULES.....	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	35
SCHEDULE OF CAPITAL ASSETS.....	39
NOTES TO OTHER INFORMATION - REGULATORY BASIS SCHEDULE OF CAPITAL ASSETS.....	40
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 <i>GOVERNMENT AUDITING STANDARDS</i>	43
SCHEDULE OF FINDINGS AND RESPONSES.....	47
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Gale B. Cowan, Adair County Judge/Executive

The Honorable Michael Lee Stephens, Former Adair County Judge/Executive

Members of the Adair County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Adair County Fiscal Court, for the year ended June 30, 2019, 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.

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



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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Adair County Fiscal Court as of June 30, 2019, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Adair County Fiscal Court as of June 30, 2019, 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 and Other Information

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

The accompanying Budgetary Comparison Schedules 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 are fairly stated in all material respects in relation to the financial statement as a whole.

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Other Matters (Continued)

Supplementary and Other Information (Continued)

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2020, on our consideration of the Adair County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Adair County Fiscal Court's internal control over financial reporting and compliance.

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

- 2019-001 The Jailer Failed To Properly Implement Controls Over The Inmate Account Which Resulted In Missing Deposits Totaling \$97,451
- 2019-002 The Adair County Jail Does Not Have Adequate Segregation Of Duties
- 2019-003 The Jailer Did Not Present An Annual Jail Commissary Report To The County Treasurer
- 2019-004 The Jailer Failed To Remit Sales Tax Reports Timely
- 2019-005 The Adair County Fiscal Court Did Not Properly Disclose Debt Balances On The Quarterly Financial Report
- 2019-006 The Adair County Fiscal Court Does Not Have Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 6, 2020

ADAIR COUNTY OFFICIALS
For The Year Ended June 30, 2019

Fiscal Court Members:

Michael Lee Stephens (July 1, 2018 Through December 31, 2018)	County Judge/Executive
Gale B. Cowan (January 1, 2019 Through June 30, 2019)	County Judge/Executive
Harold Burton	Magistrate
Daryl Flatt	Magistrate
Sammy Baker	Magistrate
Perry Reeder (July 1, 2018 Through December 31, 2018)	Magistrate
Chris Reeder (January 1, 2019 Through June 30, 2019)	Magistrate
Billy Coffey	Magistrate
Greg Caldwell	Magistrate
Terry Hadley	Magistrate

Other Elected Officials:

Jennifer Hutchinson-Corbin	County Attorney
Joey White	Jailer
Lisa Greer	County Clerk
Dennis Loy	Circuit Court Clerk
Harrison Moss (July 1, 2018 Through December 31, 2018)	Sheriff
Josh Brockman (January 1, 2019 Through June 30, 2019)	Sheriff
Jeff Feece (July 1, 2018 Through December 31, 2018)	Property Valuation Administrator
Landon Edwards (January 1, 2019 Through June 30, 2019)	Property Valuation Administrator
Todd Akin	Coroner

Appointed Personnel:

Melinda Quinn	County Treasurer
Gale B. Cowan (July 1, 2018 Through December 31, 2018)	Finance Officer
Benisha Johnson (January 1, 2019 Through June 30, 2019)	Finance Officer

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 1,184,886	\$	\$	\$
In Lieu Tax Payments	56,261			
Excess Fees	332,414			
Licenses and Permits	112,781			
Intergovernmental	469,298	1,977,221	1,059,588	113,699
Charges for Services			34,199	
Miscellaneous	220,556	131,024	87,524	
Interest	3,730	12,649	470	1,281
Total Receipts	<u>2,379,926</u>	<u>2,120,894</u>	<u>1,181,781</u>	<u>114,980</u>
DISBURSEMENTS				
General Government	827,353	16,027	6,110	20,478
Protection to Persons and Property	37,678		1,448,693	11,737
General Health and Sanitation	207,483	42,349		20,011
Social Services	1,200			1,107
Recreation and Culture	6,427			14,061
Roads		1,863,493		19,942
Airports				7,000
Debt Service	149,413	14,505	29,631	10,047
Administration	634,870	132,435	365,540	17,610
Total Disbursements	<u>1,864,424</u>	<u>2,068,809</u>	<u>1,849,974</u>	<u>121,993</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>515,502</u>	<u>52,085</u>	<u>(668,193)</u>	<u>(7,013)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	225,241	24,113	652,772	
Transfers To Other Funds	(837,304)	(225,241)		
Total Other Adjustments to Cash (Uses)	<u>(612,063)</u>	<u>(201,128)</u>	<u>652,772</u>	
Net Change in Fund Balance	(96,561)	(149,043)	(15,421)	(7,013)
Fund Balance - Beginning (Restated)	232,884	877,335	52,665	98,236
Fund Balance - Ending	<u>\$ 136,323</u>	<u>\$ 728,292</u>	<u>\$ 37,244</u>	<u>\$ 91,223</u>
Composition of Fund Balance				
Bank Balance	\$ 151,202	\$ 1,045,511	\$ 60,139	\$ 91,936
Less: Outstanding Checks	(14,879)	(317,219)	(22,895)	(713)
Fund Balance - Ending	<u>\$ 136,323</u>	<u>\$ 728,292</u>	<u>\$ 37,244</u>	<u>\$ 91,223</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, 2019
(Continued)

Budgeted Funds					
Federal Grant Fund	Forest Fire Fund	Parks & Recreation Fund	ABC Commission Fund	911 Fund	Green River Animal Shelter Fund
\$	\$ 2,014	\$	\$	\$ 101,640	\$
		30,752	6,050	169,838	23,098
48,504		12,259	26,720	889	8,894
11	13	298	278	189	21
<u>48,515</u>	<u>2,027</u>	<u>43,309</u>	<u>33,048</u>	<u>272,556</u>	<u>32,013</u>
	2,250	131	26,497	2,037	322
				288,797	76,927
		31,241			
		18,406			
		2,967	792	75,689	15,553
	2,250	52,745	27,289	366,523	92,802
48,515	(223)	(9,436)	5,759	(93,967)	(60,789)
	201			96,248	63,970
	201			96,248	63,970
48,515	(22)	(9,436)	5,759	2,281	3,181
	25	32,322	27,501	16,557	200
<u>\$ 48,515</u>	<u>\$ 3</u>	<u>\$ 22,886</u>	<u>\$ 33,260</u>	<u>\$ 18,838</u>	<u>\$ 3,381</u>
\$ 48,515	\$ 3	\$ 23,598	\$ 33,471	\$ 21,808	\$ 6,430
		(712)	(211)	(2,970)	(3,049)
<u>\$ 48,515</u>	<u>\$ 3</u>	<u>\$ 22,886</u>	<u>\$ 33,260</u>	<u>\$ 18,838</u>	<u>\$ 3,381</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, 2019
(Continued)

	<u>Unbudgeted Funds</u>		
	<u>Public Properties Corporation Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 1,288,540
In Lieu Tax Payments			56,261
Excess Fees			332,414
Licenses and Permits			118,831
Intergovernmental	910,950		4,754,444
Charges for Services			34,199
Miscellaneous		134,329	670,699
Interest	201		19,141
Total Receipts	<u>911,151</u>	<u>134,329</u>	<u>7,274,529</u>
DISBURSEMENTS			
General Government			901,205
Protection to Persons and Property			1,786,905
General Health and Sanitation			346,770
Social Services			2,307
Recreation and Culture		160,981	212,710
Roads			1,883,435
Airports			7,000
Debt Service	911,193		1,133,195
Administration			1,245,456
Total Disbursements	<u>911,193</u>	<u>160,981</u>	<u>7,518,983</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(42)</u>	<u>(26,652)</u>	<u>(244,454)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			1,062,545
Transfers To Other Funds			(1,062,545)
Total Other Adjustments to Cash (Uses)			<u>(0)</u>
Net Change in Fund Balance	(42)	(26,652)	(244,454)
Fund Balance - Beginning (Restated)	4,873	36,021	1,378,619
Fund Balance - Ending	<u>\$ 4,831</u>	<u>\$ 9,369</u>	<u>\$ 1,134,165</u>
Composition of Fund Balance			
Bank Balance	\$ 4,831	\$ 9,369	\$ 1,496,813
Less: Outstanding Checks			(362,648)
Fund Balance - Ending	<u>\$ 4,831</u>	<u>\$ 9,369</u>	<u>\$ 1,134,165</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
NOTE 2.	DEPOSITS	13
NOTE 3.	TRANSFERS.....	14
NOTE 4.	AGENCY TRUST FUNDS	14
NOTE 5.	LONG-TERM DEBT	14
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	17
NOTE 7.	DEFERRED COMPENSATION.....	21
NOTE 8.	INSURANCE.....	21
NOTE 9.	COMMUNITY DEVELOPMENT BLOCK GRANT FORGIVABLE DEFERRED LOAN	21
NOTE 10.	CONDUIT DEBT.....	22
NOTE 11.	PRIOR PERIOD ADJUSTMENTS	22

**ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2019

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 Governmental 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, 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 sources 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, 2019
(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 governments, 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.

Federal Grant Fund - The primary purpose of this fund is to manage federal grants received by the county. The primary source of receipts for this fund is federal grants.

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

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

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

911 Fund - The primary purpose of this fund is to account for the 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 of the county. The primary source of receipts for this fund are from local support, animal adoptions, and inter-local agreements with other counties.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required 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, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the public properties corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Adair County Elected Officials

Kentucky law provides for election of the officials listed 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, 2019
(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 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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2019.

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 225,241	\$ 225,241
Road Fund	24,113		24,113
Jail Fund	652,772		652,772
Forest Fire Fund	201		201
911 Fund	96,248		96,248
Green River Animal Shelter Fund	63,970		63,970
Total Transfers Out	<u>\$ 837,304</u>	<u>\$ 225,241</u>	<u>\$ 1,062,545</u>

Reason for transfers:

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

Note 4. Agency Trust Funds

Agency 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, 2019, was \$14,008.

Note 5. Long-term Debt

A. Direct Borrowing and Direct Placements

1. 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 balance as of June 30, 2019, was \$31,459. Future principal and interest requirements are as follows:

	Fiscal Year Ending June 30	Principal	Scheduled Interest
2020		\$ 16,242	\$ 1,521
2021		15,217	483
Totals		<u>\$ 31,459</u>	<u>\$ 2,004</u>

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 5. Long-term Debt (Continued)

A. Direct Borrowing and Direct Placements (Continued)

2. Energy Savings and Hospital, Series 2014A

On March 27, 2014, the Adair County Fiscal Court entered into a \$1,950,000 agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The purpose was to fund an energy savings project in the amount of \$250,000 and refinance the hospital equipment debt in the amount of \$1,700,000. The energy savings portion requires monthly payments of principal and interest until December 2023. The hospital portion requires monthly and interest payments until December 2028. The principal balance of the energy savings portion as of June 30, 2019 was \$ 117,500. The principal balance of the hospital portion as of June 30, 2019, was \$1,162,500. Future principal and interest requirements are as follows:

a. Energy Savings Portion

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 25,000	\$ 3,819
2021	25,000	3,006
2022	25,000	2,194
2023	27,500	1,381
2024	15,000	488
Totals	<u>\$ 117,500</u>	<u>\$ 10,888</u>

b. Hospital Portion

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 107,500	\$ 40,225
2021	110,000	37,000
2022	112,500	33,700
2023	117,500	30,325
2024	120,000	28,600
2025-2029	595,000	65,500
Totals	<u>\$ 1,162,500</u>	<u>\$ 235,350</u>

3. Mack Truck

On October 18, 2016, the Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of a dump truck that will be utilized by the road department. The dump truck was purchased for the amount of \$107,994 of which \$100,000 was financed. The principal was \$100,000 at an interest rate of 2.652 percent for a period of 96 months. Interest and principal payments are due monthly. The principal balance as of June 30, 2019, was \$69,063. Future principal and interest requirements are as follows:

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 5. Long-term Debt (Continued)

A. Direct Borrowing and Direct Placements (Continued)

3. Mack Truck (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 12,217	\$ 2,192
2021	12,545	1,765
2022	12,882	1,326
2023	13,228	876
2024	13,583	414
2025	4,608	33
Totals	<u>\$ 69,063</u>	<u>\$ 6,606</u>

4. Sheriff's Vehicle

On October 17, 2017, the Adair County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to finance the purchase of a sheriff vehicle. The sheriff vehicle was financed in the amount of \$37,252. The agreement stipulated an interest rate of 3.75 percent for a period of 48 months. Interest and principal payments are due monthly. The principal balance as of June 30, 2019, was \$22,412. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 9,366	\$ 681
2021	9,723	323
2022	3,323	26
Totals	<u>\$ 22,412</u>	<u>\$ 1,030</u>

B. Other Debt

1. 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 the Adair County Courthouse Facility. On December 27, 2007, \$12,470,000 in bonds were 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 (AOC), Commonwealth of Kentucky, for approximately 100% of the Adair County Courthouse Facility. On November 4, 2015, the Adair PPC issued \$7,265,000 in Refunding Revenue Bonds (Justice Center Project), Series 2015. That advance refunded the First Mortgage Revenue Bonds, Series 2007 bonds. The principal balance as of June 30, 2019, was \$0.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 5. Long-term Debt (Continued)

B. Other Debt (Continued)

2. First Mortgage Refunding Revenue Bonds, Series 2015

On November 4, 2015, the Adair County Public Properties Corporation (PPC), an agency and instrumentality of the Adair County Fiscal Court, issued \$7,265,000 in Refunding Revenue Bonds (Justice Center Project), Series 2015. These bonds mature in varying amounts from \$70,000 to \$900,000 on December 1 of each year from 2018 through 2027. Proceeds of the bonds were used to refund the First Mortgage Revenue Bonds, Series 2007, which was for the purpose of acquisition, construction, installation, and equipping of the Adair County Courthouse Facility. Interest is payable semi-annually on June 1 and December 1 at rates ranging from 2.0% to 3.5% and principal payments are due annually on December 1 of each year. The principal balance as of June 30, 2019, was \$7,195,000. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 710,000	\$ 201,650
2021	725,000	183,675
2022	750,000	161,550
2023	775,000	138,675
2024	800,000	115,500
2025-2028	3,435,000	209,625
Totals	<u>\$ 7,195,000</u>	<u>\$ 1,010,675</u>

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 1,567,233		\$ 164,298	\$ 1,402,935	\$ 170,325
Revenue Bonds	7,880,000		685,000	7,195,000	710,000
Total Long-term Debt	<u>\$ 9,447,233</u>	<u>\$ 0</u>	<u>\$ 849,298</u>	<u>\$ 8,597,935</u>	<u>\$ 880,325</u>

Note 6. Employee Retirement System

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

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 6. Employee Retirement System (Continued)

The county's contribution for FY 2017 was \$527,114, FY 2018 was \$602,861, and FY 2019 was \$612,766.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for nonhazardous employees was 21.48 percent.

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

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

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute 8 percent of their annual creditable compensation and also contribute 1 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 of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 6. Employee Retirement System (Continued)

Hazardous (Continued)

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

The county's contribution rate for hazardous employees was 35.34 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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.

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, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, they 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous (Continued)

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, they earn fifteen 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 by 1.5 percent. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

D. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

E. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

F. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 6. Employee Retirement System (Continued)

KRS Annual Financial Report and Proportionate Share Audit Report (Continued)

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website 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 permit 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 the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2019, 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 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. 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. As of June 30, 2019, the Adair County Board of Education is in compliance with the grant provisions. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. The grant is scheduled to close in January 2020.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 10. Conduit Debt

From time to time the Adair County Fiscal Court has issued bonds to provide financial assistance to the local private college for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Adair County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2019, the Educational Development Revenue Bonds (Lindsey Wilson College Project), Series 2011, were outstanding, with a principal amount payable of \$7,470,000.

Note 11. Prior Period Adjustments

	General Fund	Road Fund	Jail Fund	LGEA Fund	911 Fund	Green River Animal Shelter Fund
Beginning Balance - June 30, 2018	\$ 232,783	\$ 877,274	\$ 52,579	\$ 98,235	\$ 16,529	\$ 172
Adjustments:						
Voided Checks	101	61	86		28	28
Immaterial Adjustment				1		
Restated Beginning Balance - June 30, 2018	<u>\$ 232,884</u>	<u>\$ 877,335</u>	<u>\$ 52,665</u>	<u>\$ 98,236</u>	<u>\$ 16,557</u>	<u>\$ 200</u>

Agency Trust Fund:

	Jail Inmate Fund
Beginning Balance - June 30, 2018	\$ 17,251
Adjustments:	
Receivable At Year End	6,953
Immaterial Adjustment	<u>(210)</u>
Restated Beginning Balance - June 30, 2018	<u>\$ 23,994</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

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ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,115,000	\$ 1,195,370	\$ 1,184,886	\$ (10,484)
In Lieu Tax Payments	61,282	63,299	56,261	(7,038)
Excess Fees	229,682	332,414	332,414	
Licenses and Permits	32,900	110,659	112,781	2,122
Intergovernmental	362,122	534,492	469,298	(65,194)
Miscellaneous	195,000	235,832	220,556	(15,276)
Interest	4,000	4,000	3,730	(270)
Total Receipts	<u>1,999,986</u>	<u>2,476,066</u>	<u>2,379,926</u>	<u>(96,140)</u>
DISBURSEMENTS				
General Government	804,443	937,702	827,353	110,349
Protection to Persons and Property	36,725	39,297	37,678	1,619
General Health and Sanitation	121,736	225,608	207,483	18,125
Social Services	1,200	1,200	1,200	
Recreation and Culture	5,000	7,022	6,427	595
Debt Service	150,000	150,000	149,413	587
Administration	677,167	836,946	634,870	202,076
Total Disbursements	<u>1,796,271</u>	<u>2,197,775</u>	<u>1,864,424</u>	<u>333,351</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>203,715</u>	<u>278,291</u>	<u>515,502</u>	<u>237,211</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	223,032	223,032	225,241	2,209
Transfers To Other Funds	(731,747)	(731,747)	(837,304)	(105,557)
Total Other Adjustments to Cash (Uses)	<u>(508,715)</u>	<u>(508,715)</u>	<u>(612,063)</u>	<u>(103,348)</u>
Net Change in Fund Balance	(305,000)	(230,424)	(96,561)	133,863
Fund Balance - Beginning (Restated)	<u>305,000</u>	<u>305,000</u>	<u>232,884</u>	<u>(72,116)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 74,576</u>	<u>\$ 136,323</u>	<u>\$ 61,747</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,002,301	\$ 2,162,788	\$ 1,977,221	\$ (185,567)
Miscellaneous	142,500	142,500	131,024	(11,476)
Interest	7,083	11,645	12,649	1,004
Total Receipts	<u>2,151,884</u>	<u>2,316,933</u>	<u>2,120,894</u>	<u>(196,039)</u>
DISBURSEMENTS				
General Government	17,500	17,500	16,027	1,473
General Health and Sanitation	34,000	42,349	42,349	
Roads	2,255,943	2,417,868	1,863,493	554,375
Debt Service	14,506	14,506	14,505	1
Administration	206,903	521,513	132,435	389,078
Total Disbursements	<u>2,528,852</u>	<u>3,013,736</u>	<u>2,068,809</u>	<u>944,927</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(376,968)</u>	<u>(696,803)</u>	<u>52,085</u>	<u>748,888</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			24,113	24,113
Transfers To Other Funds	(223,032)	(223,032)	(225,241)	(2,209)
Total Other Adjustments to Cash (Uses)	<u>(223,032)</u>	<u>(223,032)</u>	<u>(201,128)</u>	<u>21,904</u>
Net Change in Fund Balance	(600,000)	(919,835)	(149,043)	770,792
Fund Balance - Beginning (Restated)	<u>600,000</u>	<u>919,834</u>	<u>877,335</u>	<u>(42,499)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (1)</u>	<u>\$ 728,292</u>	<u>\$ 728,293</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 946,500	\$ 1,055,112	\$ 1,059,588	\$ 4,476
Charges for Services	36,600	40,971	34,199	(6,772)
Miscellaneous	92,000	98,780	87,524	(11,256)
Interest	500	500	470	(30)
Total Receipts	<u>1,075,600</u>	<u>1,195,363</u>	<u>1,181,781</u>	<u>(13,582)</u>
DISBURSEMENTS				
General Government	5,500	6,110	6,110	
Protection to Persons and Property	1,193,338	1,454,400	1,448,693	5,707
Debt Service	29,632	29,632	29,631	1
Administration	380,406	365,652	365,540	112
Total Disbursements	<u>1,608,876</u>	<u>1,855,794</u>	<u>1,849,974</u>	<u>5,820</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(533,276)</u>	<u>(660,431)</u>	<u>(668,193)</u>	<u>(7,762)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>533,276</u>	<u>533,276</u>	<u>652,772</u>	<u>119,496</u>
Total Other Adjustments to Cash (Uses)	<u>533,276</u>	<u>533,276</u>	<u>652,772</u>	<u>119,496</u>
Net Change in Fund Balance		(127,155)	(15,421)	111,734
Fund Balance - Beginning (Restated)		<u>52,579</u>	<u>52,665</u>	<u>86</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (74,576)</u>	<u>\$ 37,244</u>	<u>\$ 111,820</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 128,635	\$ 171,454	\$ 113,699	\$ (57,755)
Miscellaneous	100	100		(100)
Interest	526	1,186	1,281	95
Total Receipts	<u>129,261</u>	<u>172,740</u>	<u>114,980</u>	<u>(57,760)</u>
DISBURSEMENTS				
General Government	26,900	29,441	20,478	8,963
Protection to Persons and Property	11,200	11,905	11,737	168
General Health and Sanitation	20,100	20,439	20,011	428
Social Services	1,500	1,650	1,107	543
Recreation and Culture		14,061	14,061	
Roads	65,000	65,000	19,942	45,058
Airports	7,000	7,000	7,000	
Debt Service	10,047	10,047	10,047	
Administration	22,514	111,674	17,610	94,064
Total Disbursements	<u>164,261</u>	<u>271,217</u>	<u>121,993</u>	<u>149,224</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(35,000)</u>	<u>(98,477)</u>	<u>(7,013)</u>	<u>91,464</u>
Net Change in Fund Balance	(35,000)	(98,477)	(7,013)	91,464
Fund Balance - Beginning (Restated)	<u>35,000</u>	<u>98,235</u>	<u>98,236</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (242)</u>	<u>\$ 91,223</u>	<u>\$ 91,465</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$ 48,504	\$ 48,504	\$
Interest		4	11	7
Total Receipts		<u>48,508</u>	<u>48,515</u>	<u>7</u>
DISBURSEMENTS				
General Government		48,508		48,508
Administration				
Total Disbursements		<u>48,508</u>		<u>48,508</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>48,515</u>	<u>48,515</u>
Net Change in Fund Balance			48,515	48,515
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 48,515	\$ 48,515

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	FOREST FIRE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,850	\$ 2,014	\$ 2,014	\$
Interest	15	15	13	(2)
Total Receipts	<u>1,865</u>	<u>2,029</u>	<u>2,027</u>	<u>(2)</u>
DISBURSEMENTS				
General Government	2,250	2,250	2,250	
Administration		189		189
Total Disbursements	<u>2,250</u>	<u>2,439</u>	<u>2,250</u>	<u>189</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(385)</u>	<u>(410)</u>	<u>(223)</u>	<u>187</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	385	385	201	(184)
Total Other Adjustments to Cash (Uses)	<u>385</u>	<u>385</u>	<u>201</u>	<u>(184)</u>
Net Change in Fund Balance		(25)	(22)	3
Fund Balance - Beginning		<u>25</u>	<u>25</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3</u>	<u>\$ 3</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	PARKS & RECREATION FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 25,000	\$ 29,566	\$ 30,752	\$ 1,186
Miscellaneous	11,000	11,616	12,259	643
Interest	600	842	298	(544)
Total Receipts	<u>36,600</u>	<u>42,024</u>	<u>43,309</u>	<u>1,285</u>
DISBURSEMENTS				
General Government	150	150	131	19
Recreation and Culture	29,825	33,197	31,241	1,956
Debt Service	18,300	18,528	18,406	122
Administration	13,325	22,228	2,967	19,261
Total Disbursements	<u>61,600</u>	<u>74,103</u>	<u>52,745</u>	<u>21,358</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(25,000)</u>	<u>(32,079)</u>	<u>(9,436)</u>	<u>22,643</u>
Net Change in Fund Balance	(25,000)	(32,079)	(9,436)	22,643
Fund Balance - Beginning	<u>25,000</u>	<u>32,322</u>	<u>32,322</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 243</u>	<u>\$ 22,886</u>	<u>\$ 22,643</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	ABC COMMISSION FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 4,000	\$ 6,050	\$ 6,050	\$
Miscellaneous	15,000	26,720	26,720	
Interest	171	247	278	31
Total Receipts	<u>19,171</u>	<u>33,017</u>	<u>33,048</u>	<u>31</u>
DISBURSEMENTS				
General Government	23,350	29,804	26,497	3,307
Administration	15,821	30,714	792	29,922
Total Disbursements	<u>39,171</u>	<u>60,518</u>	<u>27,289</u>	<u>33,229</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(20,000)</u>	<u>(27,501)</u>	<u>5,759</u>	<u>33,260</u>
Net Change in Fund Balance	(20,000)	(27,501)	5,759	33,260
Fund Balance - Beginning	<u>20,000</u>	<u>27,501</u>	<u>27,501</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 33,260</u>	<u>\$ 33,260</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 112,200	\$ 112,200	\$ 101,640	\$ (10,560)
Intergovernmental	162,000	169,838	169,838	
Miscellaneous		741	889	148
Interest	100	157	189	32
Total Receipts	<u>274,300</u>	<u>282,936</u>	<u>272,556</u>	<u>(10,380)</u>
DISBURSEMENTS				
General Government	1,600	2,037	2,037	
Protection to Persons and Property Administration	291,500	311,324	288,797	22,527
	103,490	108,394	75,689	32,705
Total Disbursements	<u>396,590</u>	<u>421,755</u>	<u>366,523</u>	<u>55,232</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(122,290)</u>	<u>(138,819)</u>	<u>(93,967)</u>	<u>44,852</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>122,290</u>	<u>122,290</u>	<u>96,248</u>	<u>(26,042)</u>
Total Other Adjustments to Cash (Uses)	<u>122,290</u>	<u>122,290</u>	<u>96,248</u>	<u>(26,042)</u>
Net Change in Fund Balance		(16,529)	2,281	18,810
Fund Balance - Beginning (Restated)		<u>16,529</u>	<u>16,557</u>	<u>28</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,838</u>	<u>\$ 18,838</u>

ADAIR COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

GREEN RIVER ANIMAL SHELTER FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 18,500	\$ 22,775	\$ 23,098	\$ 323
Miscellaneous	5,800	8,065	8,894	829
Interest	25	25	21	(4)
Total Receipts	<u>24,325</u>	<u>30,865</u>	<u>32,013</u>	<u>1,148</u>
DISBURSEMENTS				
General Government	300	322	322	
General Health and Sanitation	76,880	83,348	76,927	6,421
Administration	22,941	22,993	15,553	7,440
Total Disbursements	<u>100,121</u>	<u>106,663</u>	<u>92,802</u>	<u>13,861</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(75,796)</u>	<u>(75,798)</u>	<u>(60,789)</u>	<u>15,009</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>75,796</u>	<u>75,796</u>	<u>63,970</u>	<u>(11,826)</u>
Total Other Adjustments to Cash (Uses)	<u>75,796</u>	<u>75,796</u>	<u>63,970</u>	<u>(11,826)</u>
Net Change in Fund Balance		(2)	3,181	3,183
Fund Balance - Beginning (Restated)		<u>2</u>	<u>200</u>	<u>198</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,381</u>	<u>\$ 3,381</u>

ADAIR COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2019

Note 1. Budgetary Information

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

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

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

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ADAIR COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

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ADAIR COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,068,845	\$	\$	\$ 2,068,845
Buildings and Building Improvements	16,934,336			16,934,336
Vehicles and Equipment	2,250,154	80,707	30,425	2,300,436
Other Equipment	430,729			430,729
Infrastructure	15,603,941	1,308,035		16,911,976
 Total Capital Assets	 <u>\$ 37,288,005</u>	 <u>\$ 1,388,742</u>	 <u>\$ 30,425</u>	 <u>\$ 38,646,322</u>

ADAIR COUNTY
NOTES TO OTHER INFORMATION - REGULATORY BASIS
SCHEDULE OF CAPITAL ASSETS

June 30, 2019

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.

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

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

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

Independent 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, 2019, 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 6, 2020.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, and 2019-003 as 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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-004 and 2019-006 to be a significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Adair County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-003, and 2019-005.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 6, 2020

**ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

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**ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The Jailer Failed To Properly Implement Controls Over The Inmate Account Which Resulted In Missing Deposits Totaling \$97,451

This is a repeat finding and was included in the prior year audit report as finding 2018-001. The jailer failed to implement controls over the inmate account, which resulted in missing deposits totaling \$97,451 during the period July 1, 2018 through June 30, 2019. Reported by the county as an agency trust fund, the inmate account is utilized for holding funds received by or on behalf of the inmates of the jail. Individual inmate balances are reduced for any applicable fees charged by the jail as well as purchases made by the inmate from the commissary. Upon release from the jail, the remaining balance is refunded to inmates.

Upon review of the inmate account, the auditors noted the following deficiencies:

- a. There was inadequate segregation of duties over the removal, recording, and depositing of cash received in the kiosk machines located within the jail.
- b. Inmate account bank statements were not reviewed by an individual independent of the accounting functions.
- c. Monthly reconciliations of the inmate bank account were not being prepared.
- d. Daily checkout sheets were not being prepared.
- e. Deposits were not made on a daily basis.
- f. Any disbursement from the account including refunds to the inmates were not reviewed by an individual independent of the accounting functions.

The three methods the jail has for accepting money that should be deposited into the inmate bank account are through a booking kiosk, a lobby kiosk, and online payments can be made that are credited to an inmate's account. Kiosk reports and bank statements were obtained to determine the amount of money that was deposited into the booking kiosk, the lobby kiosk, and online. Then a comparison of these reports was made to the amount of money that was deposited into the inmate bank account. During fiscal year 2019, total receipts accepted through the kiosks and online was \$571,229. The amount of receipts deposited into the jail inmate bank account was \$473,778. Therefore, total receipts of \$97,451 were not deposited into the inmate bank account.

Implementation of adequate internal controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires jailers to maintain monthly bank reconciliations, daily checkout sheets, and receipts and disbursements ledgers.

We recommend the jailer implement adequate internal controls over accounting functions and all activity of the inmate account in order to protect from asset misappropriation. Additionally, this finding will be referred to the Kentucky State Police.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This account is handled solely at the Jail. The Judge's Office has no control over inmate accounts. Jailer needs to follow recommendations from auditor and implement adequate internal controls over all accounts.

County Jailer's Response: With the new administrator that started Nov. 2019, and due to limited number of staff, the jailer implemented 2 more staff to improve the segregation of duties to have adequate internal control over accounting functions and safe guard of the inmate accounts.

**ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2019
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Adair County Jail Does Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2018-002. The Adair County Jail lacks adequate segregation of duties. The bookkeeper (administrator) receives cash, prepares bank deposits, and takes the deposits to the bank for both inmate and canteen accounts. The bookkeeper compiles invoices, prepares disbursements, and signs the disbursement checks for both the inmate and canteen accounts. Additionally, the bookkeeper was responsible for the bank reconciliations and monthly reports to fiscal court. The jailer co-signed all checks but no evidence was found the checks were compared to source documents. Furthermore, there was no evidence available there was any oversight over receipts, disbursements, or reconciliations.

The jailer did not have controls in place to ensure that staff knew the requirements and did not provide oversight to ensure requirements were followed. The lack of segregation of duties allowed misappropriation of assets to occur. Segregation of duties over various accounting functions is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls further dictate that one person should not have complete control over the incompatible duties of preparing deposits, preparing checks, signing checks, posting to ledgers, reconciliations of ledgers to bank accounts and preparing monthly/yearly reports. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the Adair County Jailer segregate the accounting duties in his office. If this is not feasible due to limited number of staff, strong oversight over these areas should occur and involve the jailer or an employee that is not currently performing any of those functions. For example, if the bookkeeper posts receipts to the ledger and then then jailer could compare the ledger posting, the daily checkout, and the bank deposit ticket to ensure accuracy. This oversight should be documented by initialing the source documents.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Jailer needs to follow recommendations from auditor and segregate the accounting duties in the office to more than one person.

County Jailer's Response: With a new administrator that started Nov. 2019 and due to limited number of staff, the jailer implemented 2 more staff to improve the segregation of duties. The jailer is approving bank statements, deposit slips, deposit receipts, checks and bank reconciliations for accuracy.

2019-003 The Jailer Did Not Present An Annual Jail Commissary Report To The County Treasurer

This is a repeat finding and was included in the prior year audit report as finding 2018-004. The jailer failed to submit an annual jail commissary report to the treasurer for the fiscal year ending June 30, 2019. Due to a lack of oversight over accounting functions by the jailer, an annual jail commissary report was not submitted to the treasurer, which resulted misstated financial reporting for the jail commissary fund.

KRS 441.135(2) states, “[t]he jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account.”

We recommend the jailer submit an annual jail commissary report to the county treasurer as required by statute.

**ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2019
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-003 The Jailer Did Not Present An Annual Jail Commissary Report To The County Treasurer
(Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Jailer needs to follow recommendations from auditor and provide the annual statement to the treasurer at the end of each fiscal year.

County Jailer's Response: With the new administrator that started Nov. 2019, the jailer is submitting a monthly jail commissary report and canteen report to the county treasurer. And will comply by submitting an annual jail commissary report to county treasurer as required by statute.

2019-004 The Jailer Failed To Remit Sales Tax Reports Timely

This is a repeat finding and was included in the prior year audit report as finding 2018-006. The jailer failed to ensure that sales tax reports are filed timely. The reports for August 2018 and May 2019 were submitted late, which resulted in penalties and interest totaling \$19 being applied. Due to a lack of oversight over accounting functions by the jailer, sales tax reports were not filed timely for two months, which resulted in penalties and interest being charged.

KRS 139.540 and KRS 139.550 require sales tax to be reported monthly to the Kentucky Department of Revenue on or before the twentieth day of the following month. However, KRS 139.590 permits the Department of Revenue to require the reporting to be submitted quarterly on or before the twentieth day of the month following the end of each quarter. We recommend the jailer submit sales tax reports in a timely manner in order to avoid being charged penalties and interest.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Jailer needs to follow recommendations from auditor and submit sales tax reports on time to avoid penalty and interest charges.

County Jailer's Response: With the new administrator that started in Nov. 2019, we have caught up on all sales tax reports and late fees. Since Dec. 2019 monthly sales tax has been paid and in a timely manner.

2019-005 The Adair County Fiscal Court Did Not Properly Disclose Debt Balances On The Quarterly
Financial Report

This is a repeat finding and was included in the prior year audit report as finding 2018-008. The Adair County Fiscal Court listed liabilities (debt) as of June 30, 2019, on the quarterly financial report with a combined principal balance of \$9,268,990, but the actual amount was \$8,597,935. Additionally, the combined interest was listed as \$2,034,923, but the actual amount was \$1,266,553. This is a total reported variance of \$671,055 and \$768,370 of combined principal and interest, respectively, in excess of the amount the county owed.

Per the Adair County Treasurer, the issues were due to the banks not sending her the proper amortization schedules, and a software issue that caused a timing discrepancy. These issues resulted in inaccurate financial report to the Department for Local Government (DLG), and to the citizens of the county. The proper implementation of internal controls is essential for providing protection from inaccurate financial reporting.

ADAIR COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-005 The Adair County Fiscal Court Did Not Properly Disclose Debt Balances On The Quarterly Financial Report (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*, requires that all debt be disclosed accurately on the Quarterly Reports.

We recommend the Adair County Fiscal Court implement controls such as reviews of financial statements by an individual independent of the reporting process to ensure that all reporting is accurate.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding is due to incorrect amortization schedules being given to county treasurer. This was corrected at time of finding. County Treasurer is now calling the bond company prior to each fiscal year to make sure she has the correct information.

2019-006 The Adair County Fiscal Court Does Not Have Adequate Segregation Of Duties

The fiscal court does not have adequate segregation of duties. Although mail is received by the administrative assistant, the treasurer rotates the duties of preparing deposits with the finance officer and then posts the deposits to the receipts ledger. Additionally, both the finance officer and treasurer rotate the duty of preparing disbursement checks (which are automatically posted to the ledger by the computer system). The treasurer is also responsible for reconciling bank accounts and preparing monthly or quarterly reports. The fiscal court has instituted some compensating controls; however they were not documented to offset this risk. According to the county judge/executive, the county has a limited amount of funds available to hire additional office personnel. When one person is responsible for the entire accounting cycle the chances of undetected misappropriation of assets or inaccurate financial reporting increases.

A segregation of duties over various accounting functions, collecting receipts, preparing bank deposits, and preparing reports and reconciliations, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. We recommend the fiscal court separate the duties involving depositing of receipts, preparation of disbursements, preparation of reports and reconciliations. If this is not feasible due to limited number of staff, strong oversight over these areas could occur and involve an employee that is not currently performing any of those functions. For example, the county judge/executive could provide this oversight and document her oversight by initialing the source documents.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: With new administration, the County Judge Executive is viewing all bank statements and signing along with the County Treasurer.

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

ADAIR COUNTY FISCAL COURT

For The Year Ended June 30, 2019

Appendix A

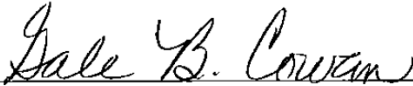
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CERTIFICATION OF COMPLIANCE

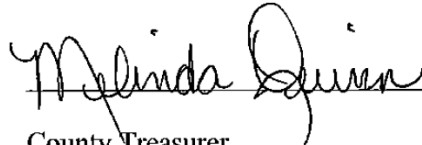
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
COUNTY FISCAL COURT

For The Year Ended June 30, 2019

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