

**ADAIR COUNTY, OKLAHOMA  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED JUNE 30, 2001**

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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

January 21, 2003

TO THE CITIZENS OF  
ADAIR COUNTY, OKLAHOMA

Transmitted herewith is the audit of Adair County, Oklahoma, for the fiscal year ended June 30, 2001. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our audit.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and to issue reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in black ink, reading "Jeff A. McMahon".

JEFF A. McMAHAN  
State Auditor and Inspector

ADAIR COUNTY, OKLAHOMA  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001

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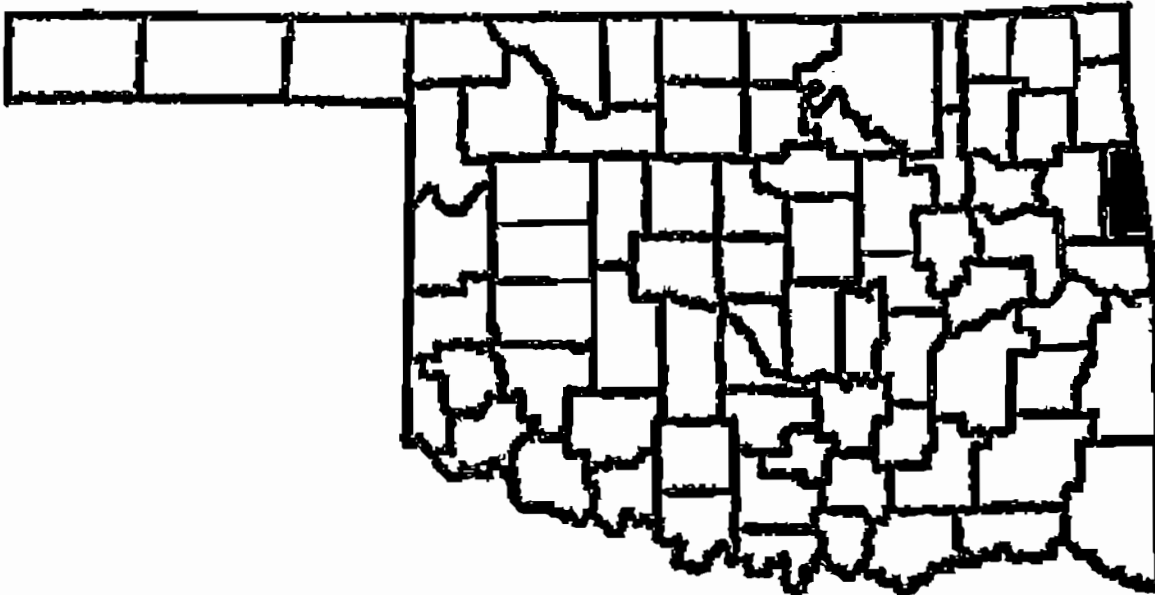
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REPORT TO THE CITIZENS  
OF  
ADAIR COUNTY, OKLAHOMA

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Bordering Arkansas, Adair County was created at statehood and named for a well-known Cherokee Indian family. The county seat has been in Stilwell since 1910. Primary industries of the county include food processing and canning, poultry raising, cattle ranching, and horse breeding. The Annual Strawberry Festival is held on the second Saturday in May in Stilwell.

County Seat - Stilwell

Area – 575.7 Square Miles

County Population – 20,544  
(1999 est.)

Farms – 1,090

Land in Farms – 225,322 Acres

Source: Oklahoma Almanac 2001-2002

See independent auditor's report.

## COUNTY ELECTED OFFICIALS AND RESPONSIBILITIES

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### **COUNTY ASSESSOR**

Rhonda Pritchett  
(D) Bunch

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year, at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

### **COUNTY CLERK**

Carrie Philpott  
(D) Stilwell

The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

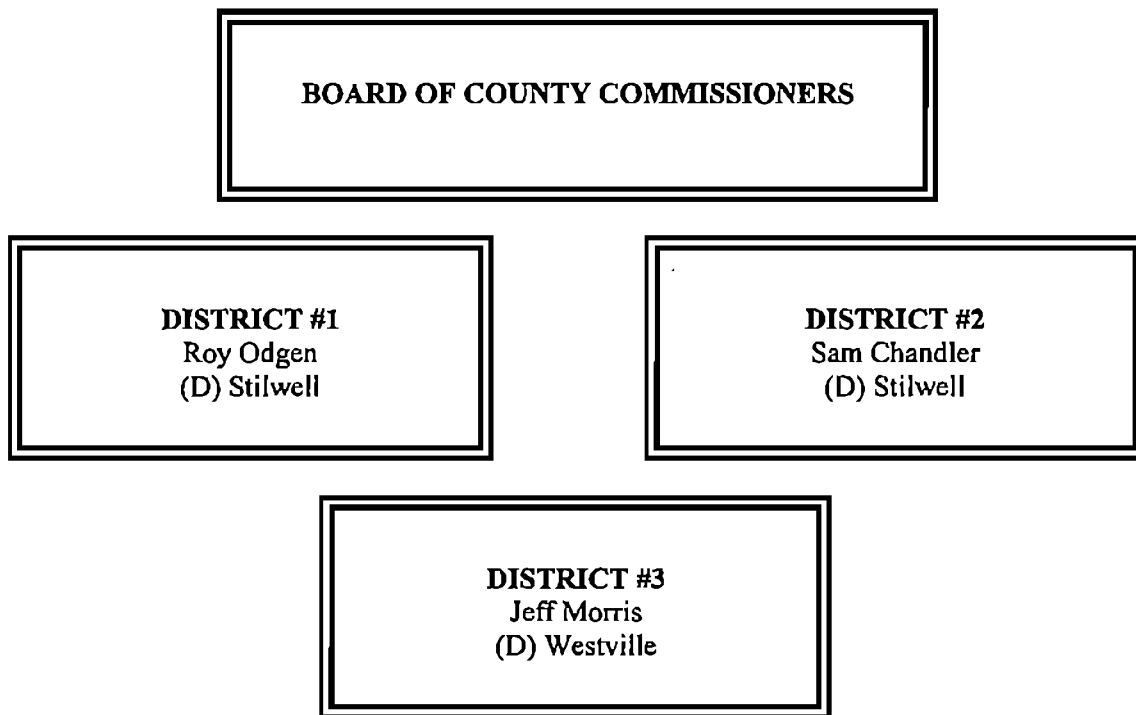
The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report.

## COUNTY ELECTED OFFICIALS AND RESPONSIBILITIES

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The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

See independent auditor's report.

**COUNTY ELECTED OFFICIALS  
AND RESPONSIBILITIES**

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**COUNTY SHERIFF**  
Charles Hartshorne  
(D) Watts

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

**COUNTY TREASURER**  
Janice Brewer  
(D) Stilwell

All revenues received by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county revenues and expenditures, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report.

## COUNTY ELECTED OFFICIALS AND RESPONSIBILITIES

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**COURT CLERK**  
Shawna Baird  
(D) Stilwell

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

**DISTRICT ATTORNEY**  
Dianne Barker-Harold  
(D) Fort Gibson

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

See independent auditor's report.



**COUNTY ELECTED OFFICIALS  
AND RESPONSIBILITIES**

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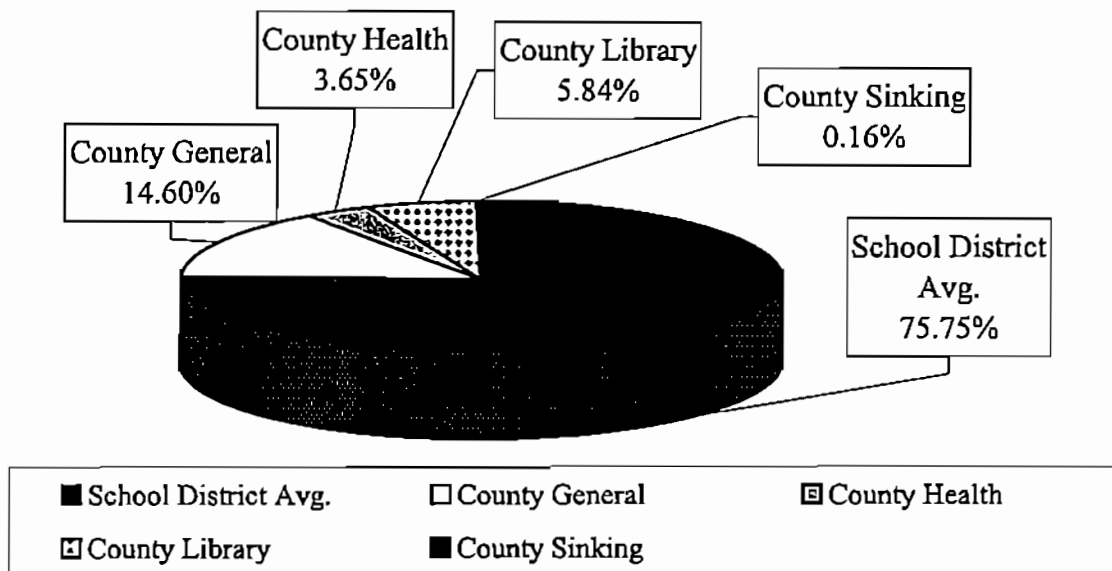
**ELECTION BOARD SECRETARY**  
Mary Morton  
(D) Stilwell

The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operating expenses of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

**AD VALOREM TAX DISTRIBUTION  
ADAIR COUNTY, OKLAHOMA  
SHARE OF THE AVERAGE MILLAGE**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages				School District Millages					Total
				Gen. Fund	Bldg. Fund	Skg. Fund	Vo-tech General	Vo-tech Bldg.	
Co. General	10.00								
Co. Health	2.50	Skelly	D-1	35.00	5.00		8.00	2.00	50.00
Co. Library	4.00	Watts	I-4	35.00	5.00		8.00	2.00	50.00
Co. Sinking	0.11	Westville	I-11	35.00	5.00		8.00	2.00	50.00
		Peavine	D-19	35.00	5.00		8.00	2.00	50.00
		Maryetta	D-22	35.00	5.00		8.00	2.00	50.00
		Rocky Mtn	D-24	35.00	5.00		8.00	2.00	50.00
		Stilwell	I-25	35.00	5.00		8.00	2.00	50.00
		Zion	D-28	35.00	5.00		8.00	2.00	50.00
		Dahlongegah	D-29	35.00	5.00		8.00	2.00	50.00
		Cave Springs	I-30	35.00	5.00	12.39	8.00	2.00	62.39
		Greasy	D-32	35.00	5.00		8.00	2.00	50.00
		Bell	D-33	35.00	5.00		8.00	2.00	50.00
		Kansas	JT-3	35.00	5.00	9.22	5.00	5.00	59.22
		Moseley	JT-34	35.00	5.00	4.74	5.00	5.00	54.74

See independent auditor's report.

## **Independent Auditor's Report**



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**Independent Auditor's Report**

TO THE OFFICERS OF  
ADAIR COUNTY, OKLAHOMA

We have audited the accompanying general-purpose financial statements of Adair County, Oklahoma, as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of Adair County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Adair County Jail Trust Authority, a component unit of Adair County. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the general-purpose financial statements, insofar, as it relates to amounts included for the Adair County Jail Trust Authority, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

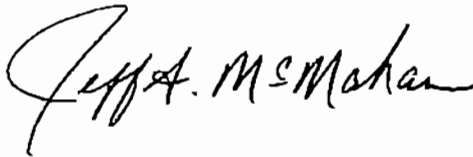
As explained in Note (1H), the general-purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, based on our audit and the report of the other auditor, and except for the effect on the general-purpose financial statements of the omission of the general fixed assets account group described in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Adair County, Oklahoma, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2002, on our consideration of Adair County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole. The other information listed in the table of contents under *Introductory Section* has not been audited by us and accordingly, we express no opinion on such data.

Sincerely,

A handwritten signature in black ink, reading "Jeff A. McMahon". The signature is written in a cursive, flowing style with a large initial "J" and "M".

JEFF A. McMAHAN  
State Auditor and Inspector

October 28, 2002

## **General-Purpose Financial Statements**

**ADAIR COUNTY, OKLAHOMA**  
**COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUP**  
**AND DISCRETELY PRESENTED COMPONENT UNIT**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types			Fiduciary Fund Type	Account Group	Total (Memorandum Only)		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Trust and Agency	General Long-Term Debt	Primary Government	Component Unit	Reporting Entity
<b>ASSETS</b>								
Cash and investments	\$ 479,490	\$ 2,448,658	\$ 19,460	\$ 777,180	\$	\$ 3,724,788	\$ 1,071,360	\$ 4,796,148
Ad valorem taxes receivable	24,765	6,192	265	144,840		176,062		176,062
Sales tax receivable				12,910		12,910	23,749	36,659
Accrued interest receivable	3,010	11,275				14,285	5,310	19,595
Due from other governments	1,923	149,439		7,031		158,393		158,393
Amount to be provided for capitalized lease agreements					554,458	554,458		554,458
Net property and equipment							287,526	287,526
Total assets	<u>\$ 509,188</u>	<u>\$ 2,615,564</u>	<u>\$ 19,725</u>	<u>\$ 941,961</u>	<u>\$ 554,458</u>	<u>\$ 4,640,896</u>	<u>1,387,945</u>	<u>\$ 6,028,841</u>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>Liabilities:</b>								
Warrants payable	\$ 32,739	\$ 88,852	\$	\$	\$	\$ 121,591	\$	\$ 121,591
Accounts payable	13,580	84,193				97,773	33	97,806
Due to other taxing units				177,782		177,782		177,782
Due to others				764,179		764,179		764,179
General obligation bonds payable								
Capitalized lease obligations payable					554,458	554,458		554,458
Total liabilities	<u>46,319</u>	<u>173,045</u>	<u>-</u>	<u>941,961</u>	<u>554,458</u>	<u>1,715,783</u>	<u>33</u>	<u>1,715,816</u>
<b>Fund equity:</b>								
Retained earnings							1,387,912	1,387,912
Reserved for encumbrances	32,470	93,276				125,746		125,746
Unreserved:								
Undesignated	430,399	2,349,243	19,725			2,799,367		2,799,367
Total fund equity	<u>462,869</u>	<u>2,442,519</u>	<u>19,725</u>	<u>-</u>	<u>-</u>	<u>2,925,113</u>	<u>1,387,912</u>	<u>4,313,025</u>
Total liabilities and fund equity	<u>\$ 509,188</u>	<u>\$ 2,615,564</u>	<u>\$ 19,725</u>	<u>\$ 941,961</u>	<u>\$ 554,458</u>	<u>\$ 4,640,896</u>	<u>\$ 1,387,945</u>	<u>\$ 6,028,841</u>

The notes to the financial statements are an integral part of this statement.

**ADAIR COUNTY, OKLAHOMA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Debt Service	
Revenues:				
Ad valorem taxes	\$ 630,913	\$ 220,091	\$ 6,825	\$ 857,829
Charges for services	81,632	77,674		159,306
Intergovernmental revenues	224,496	1,891,661		2,116,157
Miscellaneous revenues	69,008	767,320	3,369	839,697
Total revenues	<u>1,006,049</u>	<u>2,956,746</u>	<u>10,194</u>	<u>3,972,989</u>
Expenditures:				
Current operating:				
General government	627,355	96,106		723,461
Public safety	227,671	127,248		354,919
Culture and recreation	500			500
Education	13,479			13,479
Health and welfare		161,715		161,715
Roads and highways	33,398	2,465,911		2,499,309
Debt service:				
Principal retirement			6,644	6,644
Interest and fiscal agent charges			479	479
Total expenditures	<u>902,403</u>	<u>2,850,980</u>	<u>7,123</u>	<u>3,760,506</u>
Excess of revenue over (under) expenditures	<u>103,646</u>	<u>105,766</u>	<u>3,071</u>	<u>212,483</u>
Other financing sources (uses):				
Operating transfers in	1,655		1,832	3,487
Operating transfers out		(1,655)		(1,655)
Capitalized lease agreements		33,172		33,172
Total other financing sources (uses)	<u>1,655</u>	<u>31,517</u>	<u>1,832</u>	<u>35,004</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>105,301</u>	<u>137,283</u>	<u>4,903</u>	<u>247,487</u>
Beginning fund balances	<u>357,568</u>	<u>2,305,236</u>	<u>14,822</u>	<u>2,677,626</u>
Ending fund balances	<u>\$ 462,869</u>	<u>\$ 2,442,519</u>	<u>\$ 19,725</u>	<u>\$ 2,925,113</u>

The notes to the financial statements are an integral part of this statement.



**ADAIR COUNTY, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**-BUDGET AND ACTUAL-GENERAL AND SPECIAL REVENUE**  
**(COUNTY HEALTH DEPARTMENT ONLY) FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	General			Special Revenue Funds		
	Budget	Actual	Variance	County Health Department		
				Budget	Actual	Variance
Beginning fund balances, budgetary basis	\$ 333,681	\$ 335,420	\$ 1,739	\$ 59,014	\$ 59,261	\$ 247
Revenues:						
Ad valorem taxes	580,824	620,181	39,357	145,206	155,066	9,860
Charges for services	76,280	81,632	5,352			
Intergovernmental revenues	204,834	224,496	19,662			
Miscellaneous revenues	12,103	68,645	56,542	29,239	18,910	(10,329)
Total revenues, budgetary basis	874,041	994,954	120,913	174,445	173,976	(469)
Expenditures:						
Current operating:						
General government	737,568	653,175	84,393			
Public safety	228,130	227,671	459			
Health and welfare				233,459	161,978	71,481
Education	13,563	13,449	114			
Culture & recreation	500	500				
Roads and highways	227,961	34,878	193,083			
Total expenditures, budgetary basis	1,207,722	929,673	278,049	233,459	161,978	71,481
Excess of revenues, other sources, and beginning fund balance over expenditures and other uses	\$ -	400,701	\$ 400,701	\$ -	71,259	\$ 71,259
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances						
Add:						
Ad valorem tax receivable		24,765			6,192	
Due from other governments		1,923				
Accrued interest		3,010				
Reserve for encumbrances		32,470				
Ending fund balances		\$ 462,869			\$ 77,451	

The notes to the financial statements are an integral part of this statement.

**ADAIR COUNTY, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND EQUITY- PROPRIETARY FUND TYPE**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Adair County Jail Trust Authority</u>
Revenues:	
Sales tax	\$ 316,352
Total revenues	<u>316,352</u>
Operating expenses:	
Personal services	36,611
Travel	83
Operations and maintenance	23
Professional fees	5,060
Depreciation	654
Telephone	565
Total operating expenses	<u>42,996</u>
Operating income	273,356
Non-operating revenue (expenses)	
Investment income	<u>48,685</u>
Net income	322,041
Fund equity at July 1, 2000	<u>1,065,871</u>
Fund equity at June 30, 2001	<u><u>\$ 1,387,912</u></u>

The notes to the financial statements are an integral part of this statement.

**ADAIR COUNTY, OKLAHOMA**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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	<u>Adair County Jail Trust Authority</u>
Cash flows from operating activities:	
Net income	\$ 322,041
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	654
Net changes in current assets and liabilities:	
Decrease (increase) in accounts receivable (net)	4,745
Decrease (increase) in interest receivable	4,623
Decrease in accounts payable	<u>(500)</u>
Cash from operations	<u>331,563</u>
Cash flows from investing activities:	
Decrease (increase) in buildings	<u>(11,777)</u>
Cash used in investing	<u>(11,777)</u>
Cash flows from financing activities:	
Net increase (decrease) in cash	319,786
Cash at beginning of year	<u>751,574</u>
Cash at end of year	<u><u>\$ 1,071,360</u></u>

The notes to the financial statements are an integral part of this statement.

## **Notes to the Financial Statements**

ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

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1. Summary of Significant Accounting Policies

The financial statements of Adair County are required to be presented in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies and practices are described below.

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, accounting principles generally accepted in the United States of America the County is required to present the entities that comprise the primary government and its legally separate component units in the fiscal year 2001 general-purpose financial statements.

Discretely Presented Component Unit

The component unit column in the combined financial statement includes the financial data of the County's discretely presented component unit. It is reported in a separate column to distinguish between the financial data of the primary government and those of the discretely presented component unit. The following component unit was included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization.

Adair County Jail Trust Authority

Under the provision of the Oklahoma Trust Act, the Adair County Jail Trust Authority (hereinafter referred to as the "Authority") was established March 12, 1996, for the purpose of promoting the establishment and maintenance of an effective corrections and detention system which will enhance the preservation of the welfare and safety of the residents of the county. The Authority is governed by a board of trustees, which include the Chairman of the Board of County Commissioners, the County Sheriff and three appointed trustees.

Complete financial statements of this individual discretely presented component unit can be requested from the Adair County Clerk's office.

Related Organizations Excluded from the Reporting Entity

The County officials are also responsible for appointing the members of the boards of other organizations, but the County's accountability for these organizations does not extend beyond making the appointment. These organizations are not included in the financial statements.

ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

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Summary of Significant Accounting Policies (continued)

Adair County 911 Regional Trust Authority  
Adair County Industrial Authority

B. Fund Accounting

The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into the following categories: governmental, proprietary, and fiduciary. Each category in turn is divided into separate fund types.

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, when the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). The Adair County Jail Trust Authority is included as a proprietary fund.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the County has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) except those that conflict with GASB pronouncements.

Summary of Significant Accounting Policies (continued)

Fiduciary Funds

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Agency funds are generally used to account for assets that the government holds on behalf of others as their agent.

Account Groups

General Fixed Assets Account Group (GFAAG) - Accounting principles generally accepted in the United States of America require that those fixed assets of a government not reported in a proprietary fund or a trust fund be reported in a general fixed assets account group (GFAAG). This account group is not a fund. It does not have a balance sheet as such, nor does it report operations. Instead, the GFAAG serves as a list of the government's fixed assets and is designed to ensure accountability.

General Long-Term Debt Account Group (GLTDAG) - The general long-term debt account group (GLTDAG) is used to account for a government's unmatured long-term indebtedness that has not been identified as a specific fund liability of a proprietary or trust fund. In addition to general obligation debt instruments (e.g., bonds, notes, warrants), the GLTDAG is also used to report revenue bonds that will be repaid from general government resources, special assessment debt when the government is "obligated in some manner," special revenue bonds, and certain liabilities that are normally not expected to be liquidated with expendable available financial resources (e.g., capitalized lease-purchase obligations and compensated absences).

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these fund types present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds, nonexpendable trust funds, and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Summary of Significant Accounting Policies (continued)

The accrual basis of accounting is utilized by proprietary fund types, pension trust funds, and nonexpendable trust funds. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be quantified, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if collected within 60 days after year-end. Expenditures are recorded when incurred and the related fund liability is expected to be paid from available spendable resources. Principal and interest on general long-term debt are recorded as fund expenditures when paid or when amounts for principal and interest have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, sales tax, interest revenue, and other taxes collected and held by the Oklahoma Tax Commission at year-end on behalf of the government. Charges for services are not susceptible to accrual because generally they are not measurable until received in cash.

D. Budgetary Policies and Procedures

Under current Oklahoma statutes, the general fund and County Health Department are required to adopt a formal budget. The budget presented for the general and special revenue (County Health Department only) funds include the originally approved budgeted appropriations for expenditures as adjusted for supplemental appropriations and approved transfers between budget categories. Appropriations for the highway funds and other cash funds are made on a monthly basis, according to the funds then available.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general and special revenue funds.

Any encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. At the end of the year, unencumbered appropriations are lapsed.



ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

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Summary of Significant Accounting Policies (continued)

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue (County Health Department only) Funds presents comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types because of adopting certain aspects of the modified accrual basis of accounting and the adjusting of encumbrances to their related budget year.

E. Cash and Investments

The County pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Investments are carried at cost, which approximates market value. All funds were fully invested or deposited in interest-bearing demand accounts at June 30, 2001.

F. Receivables

All receivables are reported at their gross value.

G. Interest Receivable

Interest on deposits and investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

H. Fixed Assets - Primary Government

While the County presently maintains some individual records of personal property, it does not keep similar records for land, buildings, and improvements. For this reason, a Statement of General Fixed Assets, required by generally accepted accounting principles, is not presented on the Combined Balance Sheet - All Fund Types and Account Group.

Fixed Assets - Adair County Jail Trust Authority

Depreciation is provided in the Trust Fund in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives computed on the straight-line method.

Those rates are as follows:	<u>Rates</u>
Buildings	3.33%
Furniture and fixtures	20%

**ADAIR COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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Summary of Significant Accounting Policies (continued)

One of the primary purposes for the establishment of the Adair County Jail Trust Authority was for the construction of a new jail facility. The amounts disclosed in the financial statements as buildings is considered to be work in progress and therefore no depreciation has been recorded in relation to this asset.

I. Risk Management

The County is exposed to various risks of loss as follows:

<u>Types of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
General Liability - Torts - Errors and Omissions - Law Enforcement Officers Liability - Vehicle	The County participates in a public entity risk pool - Association of County Commissioners of Oklahoma - Self-Insured Group. (See ACCO-SIG.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Physical Plant - Theft - Damage to Assets - Natural Disasters	The County participates in a public entity risk pool. (See ACCO-SIG.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Worker's Compensation -Employees' Injuries	The County participates in a public entity risk pool. (See ACCO Self-Insured Fund ACCO-SIF).	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Health and Life -Medical -Disability -Dental -Life	The County carries commercial insurance for these types of risk.	None

ACCO-SIG - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating county pays a deductible amount (\$1,000 to \$10,000; Adair County has a \$5,000 deductible) for each insured event as stated in the County's "Certificate of Participation." The risk pool pays legitimate claims in excess of the deductible amounts up to and including \$50,000 per insured event. The pool has acquired commercial reinsurance to cover claims in excess of \$50,000 up to \$1,000,000 limit per insured event. The pool, established in 1986, has never had to assess additional premiums to be paid by its members.

ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

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Summary of Significant Accounting Policies (continued)

ACCO-SIF - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. ACCO-SIF was set up in 1984 and pays legitimate worker's compensation claims up to \$500,000 per incident. A reinsurance policy, with no limit, pays claims that exceed \$500,000 for a particular incident. The pool has not assessed additional premiums to be paid by its members in the past three years.

The County continues to carry commercial insurance for employees' health and accident insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims have not exceeded insurance coverage in any of the past three fiscal years. No significant reductions in insurance coverage occurred during the fiscal year ended June 30, 2001.

J. Compensated Absences

The County does not accrue any liability for future vacation benefits. Vacation benefits are earned by the employee during the year and may be accumulated. The amount of accumulated unpaid vacation benefits is not material to the financial statements for the fiscal year ending Jun 30, 2001.

K. Long-Term Obligations

The County reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

L. Interfund Transactions

Operating transfers consist of \$1,655 transferred from the special revenue fund (highways) to the general fund and \$1,832 from the trust and agency fund (excess resale) to the debt service fund. Transfers do not balance since revenues and expenditures are not presented for agency funds.

M. Memorandum Only - Total Columns

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Interfund transactions have not been eliminated from the total column of each financial statement.

Summary of Significant Accounting Policies (continued)

N. Grant Revenue

Revenues from state grants are recognized when expenditures are incurred.

2. Stewardship, Compliance, and Accountability

Budgetary Compliance

On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved by fund, office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

3. Detailed Notes on Account Balances

A. Deposits

Title 62 O.S. § 348.1 authorizes the County Treasurer to invest in:

- U.S. Government obligations
- Certificates of deposit
- Savings accounts
- General obligation bonds issued by counties, municipalities, or school districts
- Money judgments against counties, municipalities, or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality, or school district

Public trusts that have the state or a county as a beneficiary must only invest in certificates of deposit or other evidence of deposit.

Deposits - Primary Government - At year-end, the carrying amount of the County's deposits, excluding the Adair County Jail Trust Authority, was \$3,724,788 and the bank balance was \$3,793,495. Of the bank balance, all funds were covered by federal depository insurance or collateral held by the County's agent in the County's name.

ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

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Detailed Notes on Account Balances (continued)

Cash and Investments - Adair County Jail Trust Authority

The Authority's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. For the purposes of the statement of cash flows, the Authority considers all cash on hand, demand deposits and highly liquid investments, with an original maturity of six months or less when purchased, to be cash and cash equivalents.

The investments are stated as follows:

<u>Certificate No.</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>June 30, 2001</u>
Conseco Bank, Inc	7/18/01	4.50%	\$ 98,000.00
Guardian Savings & Loan	7/11/01	5.85%	4,000.00
Guaranty Bank SSB	8/29/01	5.10%	77,000.00
Cupertino National Bank	9/26/01	4.75%	79,000.00
Armstrong Bank	7/18/01	4.25%	50,355.77
Lighthouse Comm Bank	7/19/01	4.45%	98,000.00
Texas Capital Bank	7/25/01	4.45%	98,000.00
Armstrong Bank	9/28/01	3.49%	75,000.00
			<u>\$579,355.77</u>

B. Receivables

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

The net assessed property value as of January 1, 2000, was approximately \$63,890,608. The County levied 10.00 mills for general fund operations, 2.50 mills for the County Health Department, 4.00 mills for the County Library, and .11 mills for the County Sinking. In addition, the County also collects the ad valorem taxes assessed by cities and towns and school districts and apportions the ad valorem taxes collected to the appropriate taxing units.

ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

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Detailed Notes on Account Balances (continued)

Taxes are due on November 1 following the levy date, although, they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year. Unpaid delinquent personal property taxes are published usually in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

Current year tax collections for the year ended June 30, 2001, were approximately 93 percent of the tax levy.

C. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation, which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributed between 5% and 10% of earned compensation for fiscal year 2001. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributed 10% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2001, 2000, and 1999, were \$89,942, \$92,705, and \$85,009, respectively, equal to the required contributions for each year.

D. Operating Leases

The government is committed under various operating leases for road machinery and equipment. Lease expenditures for the year ended June 30, 2001, amounted to \$20,550. Future minimum lease payments for these leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
2002	\$ <u>9,000</u>
Total	\$ <u>9,000</u>

ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

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Detailed Notes on Account Balances (continued)

E. Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. 1991, § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest-free. However, starting in January 1997, ODOT began charging a one-time fee of 3% on all subsequent pieces of machinery acquired. The one-time fee is reported as interest. Oklahoma statutes prohibit the County from entering into contracts of this nature longer than one year. For this reason, these lease-purchase agreements do not qualify for capitalization until the year the lease-purchase agreements are completed and title to the equipment is transferred to the County. However, because it is the County's intent to exercise its right to purchase this property, the lease-purchase agreements have been capitalized to conform to accounting principles generally accepted in the United States of America. The unpaid portions of these agreements have been reflected as capitalized lease obligations within the general long-term debt account group.

Providing all capital leases are renewed each year by resolution of the Board of County Commissioners, minimum lease commitments under capitalized lease-purchase agreements as of June 30, 2001, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 197,786	\$ 11,137	\$ 208,923
2003	113,725	6,716	120,441
2004	101,424	4,343	105,767
2005	74,222	2,239	76,461
2006 and Thereafter	<u>67,301</u>	<u>612</u>	<u>67,913</u>
Totals	\$ <u>554,458</u>	\$ <u>25,047</u>	\$ <u>579,505</u>

During the year, the County capitalized leases totaling \$33,172 and paid \$415,420 on the outstanding balances of lease-purchase agreements.

F. Judgments Payable

The County paid judgments, which were retired by a tax levy. The County was obligated to pay each of the judgments over a three-year period. During the fiscal year ending June 30, 2001, principal payments of \$6,644 and interest payments of \$479 were made on these judgments.

ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

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Detailed Notes on Account Balances (continued)

G. Long-Term Debt

Changes in Long-Term Debt

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group:

	Balance July 1, 2000	Additions	Reductions	Balance June 30, 2001
Capital leases	\$ 936,706	\$ 33,172	\$ 415,420	\$ 554,458
Claims & judgments	<u>6,644</u>	<u>-</u>	<u>6,644</u>	<u>-</u>
Total	\$ <u>943,350</u>	\$ <u>33,172</u>	\$ <u>422,064</u>	\$ <u>554,458</u>

H. Fund Balance

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Designations of fund balance represent tentative plans for future use of financial resources. Specific reservations of the fund balance accounts are summarized below.

Reserved for Encumbrances- The reserve for encumbrances represents encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the County but not completed as of the close of the fiscal year.

I. Sales Tax

On September 17, 1996, Adair County voters approved a sales tax of one-half of one percent (.500%). The sole and exclusive purpose of said tax shall be the construction, maintenance, and operation of the Adair County Jail Trust Authority and facility. The duration of sales tax is unlimited.

On November 24, 1997, the Adair County Jail Trust Authority (ACJTA), a component unit of the County under the provisions of Governmental Accounting Standards Board Statements No. 14, was created by trust indenture. The ACJTA was created to acquire, construct, equip, and maintain a county jail facility.



Detailed Notes on Account Balances (continued)

J. Fuel Taxes

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for road and highways only and are accounted for in the County highway fund. The County highway fund is reported herein as "special revenue," and the fuel tax revenue is presented as "intergovernmental."

4. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**Schedule of Expenditures of Federal Awards**

ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2001

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>			
Passed through Oklahoma Civil Emergency Management:			
Public Assistance Grant	83.544		\$ <u>353,483</u>
Total Federal Emergency Management Agency			<u>353,483</u>
 <u>U. S. DEPARTMENT OF JUSTICE</u>			
Local Law Enforcement Block Grants Program	16.592		7,788
Public Safety Partnership and Policing Grants	16.710		<u>39,516</u>
Total U.S. Dept. of Justice			<u>47,304</u>
Total Expenditures of Federal Awards			\$ <u>400,787</u>

ADAIR COUNTY, OKLAHOMA  
NOTES TO THE SCHEDULE OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2001

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1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Adair County, Oklahoma, and is presented on the *cash basis of accounting*. 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*.

**Report on Compliance and on Internal Control Over Financial  
Reporting Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**Report on Compliance and on Internal Control Over Financial  
Reporting Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

TO THE OFFICERS OF  
ADAIR COUNTY, OKLAHOMA

We have audited the financial statements of Adair County, Oklahoma, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 28, 2002. We qualified our opinion because the general fixed assets account group was not included in the general-purpose financial statements. We did not audit the financial statements of the Adair County Jail Trust Authority, a component unit of Adair County. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit column, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Adair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize,

and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-1 and 98-2.

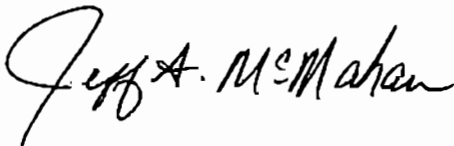
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 98-1 and 98-2 to be material weaknesses.

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of the management of the County, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahen". The signature is written in a cursive, flowing style.

JEFF A. McMAHAN  
State Auditor and Inspector

October 28, 2002

**Report on Compliance with Requirements Applicable to Each  
Major Program and on Internal Control Over Compliance in Accordance  
With OMB Circular A-133**





STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**Report on Compliance with Requirements Applicable to Each  
Major Program and on Internal Control Over Compliance in Accordance  
With OMB Circular A-133**

TO THE OFFICERS OF  
ADAIR COUNTY, OKLAHOMA

Compliance

We have audited the compliance of Adair County, Oklahoma with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. Adair County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Adair County's management. Our responsibility is to express an opinion on Adair County's compliance based on our audit.

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 Adair County'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. Our audit does not provide a legal determination on Adair County's compliance with those requirements.

In our opinion, Adair County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of Adair County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Adair County's internal control over

compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

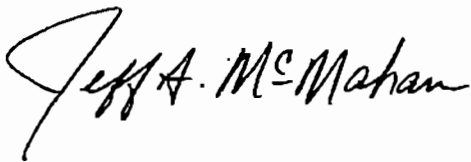
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

The American Institute of Certified Public Accountants' Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of the management of the County, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMaham". The signature is written in a cursive, flowing style.

JEFF A. McMAHAN  
State Auditor and Inspector

October 28, 2002

### **Schedule of Findings and Questioned Costs**

ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2001

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**SECTION I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued:.....QUALIFIED

Internal Control over financial reporting:

- Material weakness(es) identified?..... YES
- Reportable condition(s) identified  
that are not considered to be material  
weakness(es)?..... NONE REPORTED

Noncompliance material to financial statements  
noted? ..... NO

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?..... NO
- Reportable condition(s) identified  
that are not considered to be material  
weakness(es)?..... NONE REPORTED

Type of auditors report issued on  
compliance for major programs: ..... UNQUALIFIED

Any audit findings disclosed that are  
required to be reported in accordance  
with section 510(a) of Circular A-133?..... NO

Identification of Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

83.544

Public Assistance Grant

Dollar threshold used to distinguish  
between Type A and Type B programs:..... \$300,000

Auditee qualified as low-risk auditee? ..... NO

**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2001**

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**SECTION II – Financial Statement Findings**

**Finding 98-1 (Repeat Finding)**

Criteria: Accounting principles generally accepted in the United States of America for a governmental entity using governmental fund types require the presentation of the general fixed assets account group (GFAAG) in the financial statements.

Condition: Information is not available for reporting general fixed assets in accordance with accounting principles generally accepted in the United States of America for a government entity.

Effect: This component of internal control is not effective. Accordingly, there is a greater risk that a fixed asset may not be properly accounted for and safeguarded against loss.

Recommendation: We recommend records include acquisition cost, a complete description, purchase date, location of such asset, and that a control total of the cost of these assets be maintained and reconciled annually.

**Management's Corrective Action Plan -**

Contact Person: Carrie Philpott, County Clerk

Anticipated Completion Date: Not applicable

Corrective Action Planned: No planned corrective action is anticipated to obtain fixed asset records in such a manner that general fixed assets could be reported in accordance with accounting principles generally accepted in the United States of America.

**Finding 98-2 (Repeat Finding)**

Criteria: The overall goal of accounting principles generally accepted in the United States of America as they relate to governmental entities is to demonstrate accountability and stewardship in management's accounting for funds. To ensure proper accounting of funds, the duties of receiving, receipting, recording, and depositing cash and checks should be segregated.

Condition: Based on inquiries of County personnel, it was noted that the duties of receiving, receipting, recording, and depositing collections were not adequately segregated.

Cause: This lack of segregation of duties is caused by the limited number of employees.

Effect: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of assets.

**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2001**

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Recommendation: Management should be aware of these conditions and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of County operations and periodic review of those operations.

**Management's Corrective Action Plan -**

Contact Person: Janice Brewer, County Treasurer

Anticipated Completion Date: Not applicable

Corrective Action Planned: We agree the duties of receiving, receipting, recording, and depositing cash and checks should be segregated. The County acknowledges this condition and understands the risks associated with this lack of segregation. Due to budgetary limitations, creating such an environment would not be cost effective. Management is aware of County operations and will be making periodic reviews of those operations.

**SECTION III – Federal Award Findings and Questioned Costs**

No matters reported.