

**ADAIR COUNTY, OKLAHOMA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2002**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

May 19, 2003

TO THE CITIZENS OF
ADAIR COUNTY, OKLAHOMA

Transmitted herewith is the audit of Adair County, Oklahoma, for the fiscal year ended June 30, 2002. 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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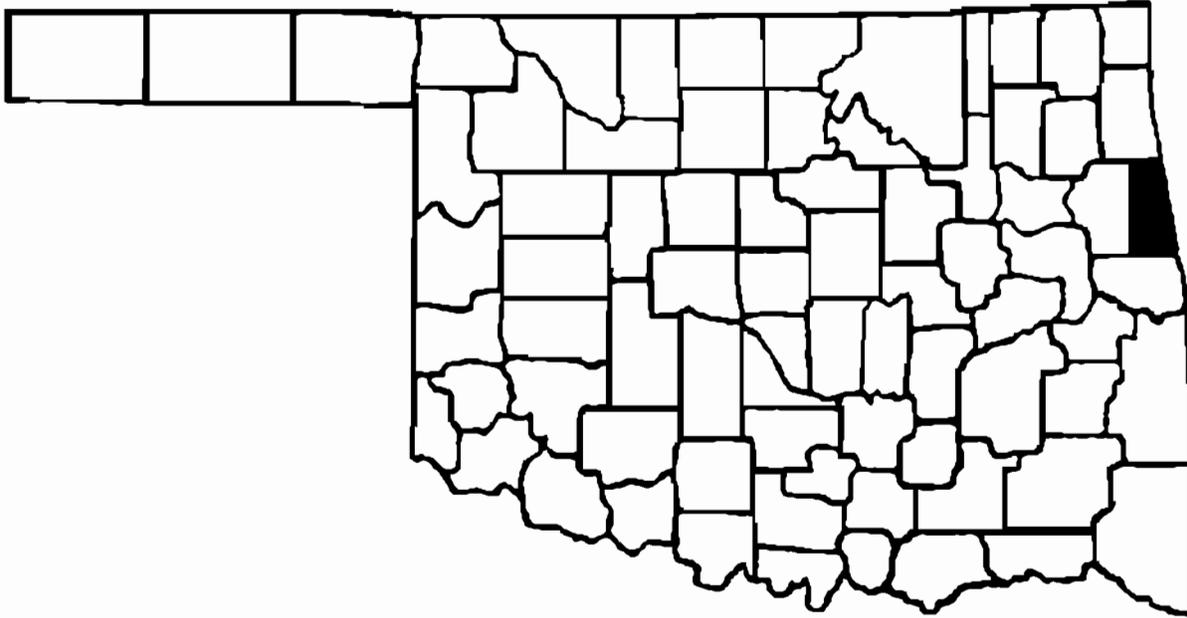
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REPORT TO THE CITIZENS
OF
ADAIR COUNTY, OKLAHOMA



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 OFFICIALS
AND RESPONSIBILITIES**

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 OFFICIALS
AND RESPONSIBILITIES**

BOARD OF COUNTY COMMISSIONERS

DISTRICT #1
Roy Odgen
(D) Stilwell

DISTRICT #2
Sam Chandler
(D) Stilwell

DISTRICT #3
Jeff Morris
(D) Westville

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 OFFICIALS
AND RESPONSIBILITIES**

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 OFFICIALS
AND RESPONSIBILITIES**

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 OFFICIALS
AND RESPONSIBILITIES**

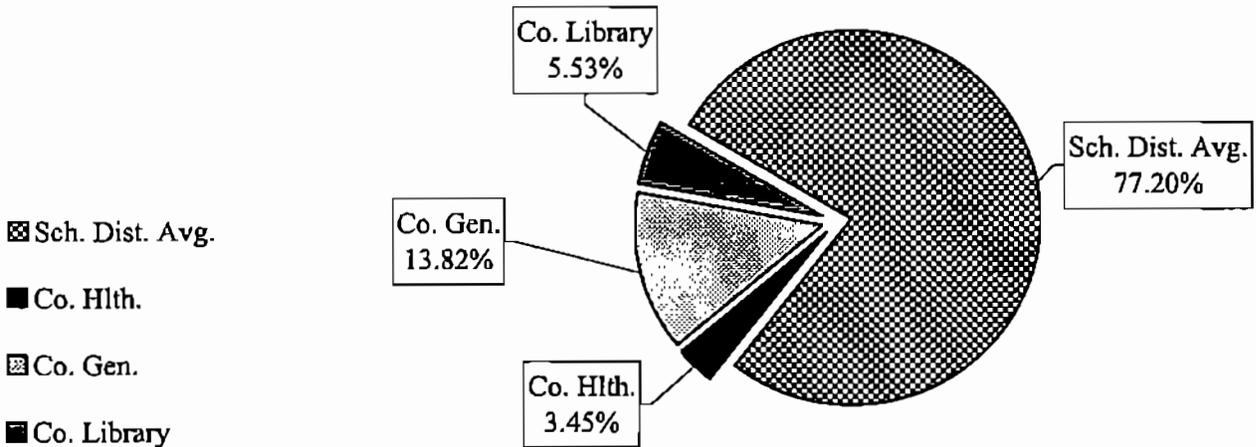
ELECTION BOARD SECRETARY
Mary Morton
(D) Stilwell

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 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:

<u>County-Wide Millages:</u>		<u>School District Millages:</u>		Gen. Fund	Bldg. Fund	Skp. Fund	Vo-Tech General	Vo-Tech Bldg.	Common	Total
Co. General Fund	10.00	Skelly	D-1	35.00	5.00		8.00	2.00	4.00	54.00
Co. Health	2.50	Watts	I-4	35.00	5.00		8.00	2.00	4.00	54.00
Co. Library	4.00	Westville	I-11	35.00	5.00		8.00	2.00	4.00	54.00
		Peavine	D-19	35.00	5.00		8.00	2.00	4.00	54.00
		Maryetta	D-22	35.00	5.00		8.00	2.00	4.00	54.00
		Rocky Mtn	D-24	35.00	5.00		8.00	2.00	4.00	54.00
		Stilwell	I-25	35.00	5.00		8.00	2.00	4.00	54.00
		Zion	D-28	35.00	5.00		8.00	2.00	4.00	54.00
		Dahlonogah	D-29	35.00	5.00		8.00	2.00	4.00	54.00
		Cave Springs	I-30	35.00	5.00		8.00	2.00	4.00	54.00
		Greasy	D-32	35.00	5.00		8.00	2.00	4.00	54.00
		Bell	D-33	35.00	5.00		8.00	2.00	4.00	54.00
		Kansas	JT-3	35.00	5.00	22.01	5.00	5.00	4.00	76.01
		Mosley	JT-34	35.00	5.00	4.29	5.00	5.00	4.00	58.29

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, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of Adair County's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of the Adair County Jail Trust Authority, which represent 100 percent of the assets and revenues, respectively, of the component unit column. 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 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.

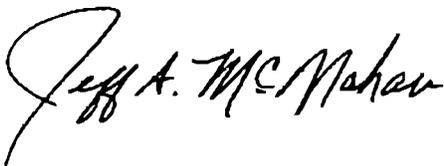
As explained in Note 1(H), the general-purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in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

In our opinion, based on our audit and the report of the other auditors, except for the effect on the general-purpose financial statements of the omission 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, 2002, and the results of its operations and the cash flows of its proprietary fund types 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, and contracts. 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.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Adair County, Oklahoma, 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 that reads "Jeff A. McMahen". The signature is written in a cursive 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
JUNE 30, 2002

	Governmental Fund Types			Fiduciary Fund Types	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
ASSETS								
Cash	\$ 482,571	\$ 2,455,591	\$ 19,913	\$ 1,013,983	\$	\$ 3,972,058	\$ 838,323	\$ 4,810,381
Ad valorem taxes receivable	24,038	6,822	34	142,600		173,494		173,494
Sales tax receivable				14,173		14,173	28,346	42,519
Accrued interest receivable	1,316	5,183				6,499	3,656	10,155
Due from other governments	1,789	151,768		6,076		159,633		159,633
Amount to be provided for capitalized lease agreements					424,828	424,828		424,828
Net property and equipment							1,279,114	1,279,114
Total assets	\$ 509,714	\$ 2,619,364	\$ 19,947	\$ 1,176,832	\$ 424,828	\$ 4,750,685	\$ 2,149,439	\$ 6,900,124
LIABILITIES AND FUND EQUITY								
Liabilities:								
Warrants payable	\$ 36,678	\$ 122,459	\$	\$	\$	\$ 159,137	\$	\$ 159,137
Accounts payable	12,786	542,111				554,897	1,689	556,586
Due to other taxing units				184,807		184,807		184,807
Due to others				992,025		992,025		992,025
Capitalized lease obligations payable					424,828	424,828		424,828
Contract retainages							93,448	93,448
Note payable - rural development							362,995	362,995
Total liabilities	49,464	664,570	-	1,176,832	424,828	2,315,694	458,132	2,773,826
Fund equity:								
Retained earnings							1,691,307	1,691,307
Reserved for encumbrances	76,408	407,065				483,473		483,473
Unreserved:								
Undesignated	383,842	1,547,729	19,947			1,951,518		1,951,518
Total fund equity	460,250	1,954,794	19,947	-	-	2,434,991	1,691,307	4,126,298
Total liabilities and fund equity	\$ 509,714	\$ 2,619,364	\$ 19,947	\$ 1,176,832	\$ 424,828	\$ 4,750,685	\$ 2,149,439	\$ 6,900,124

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, 2002

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Debt Service	
Revenues:				
Ad valorem taxes	\$ 628,646	\$ 260,871	\$ 222	\$ 889,739
Charges for services	63,810	114,215		178,025
Intergovernmental revenues	214,314	2,049,108		2,263,422
Miscellaneous revenues	83,630	187,487		271,117
Total revenues	<u>990,400</u>	<u>2,611,681</u>	<u>222</u>	<u>3,602,303</u>
Expenditures:				
Current operating:				
General government	714,203	139,666		853,869
Public safety	228,080	178,480		406,560
Education	13,445			13,445
Health and welfare		187,000		187,000
Roads and highways	37,291	2,662,415		2,699,706
Total expenditures	<u>993,019</u>	<u>3,167,561</u>	<u>-</u>	<u>4,160,580</u>
Excess of revenues over (under) expenditures	<u>(2,619)</u>	<u>(555,880)</u>	<u>222</u>	<u>(558,277)</u>
Other financing sources (uses):				
Capitalized lease agreements		68,155		68,155
Total other financing sources (uses)	<u>-</u>	<u>68,155</u>	<u>-</u>	<u>68,155</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(2,619)</u>	<u>(487,725)</u>	<u>222</u>	<u>(490,122)</u>
Beginning fund balances	<u>462,869</u>	<u>2,442,519</u>	<u>19,725</u>	<u>2,925,113</u>
Ending fund balances	<u>\$ 460,250</u>	<u>\$ 1,954,794</u>	<u>\$ 19,947</u>	<u>\$ 2,434,991</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, 2002

	General			Special Revenue Funds County Health Department		
	Budget	Actual	Variance	Budget	Actual	Variance
Beginning fund balances, budgetary basis	\$ 400,688	\$ 401,076	\$ 388	\$ 71,259	\$ 71,065	\$ (194)
Revenues:						
Ad valorem taxes	579,784	629,373	49,589	144,946	189,214	44,268
Charges for services	73,469	63,810	9,659			
Intergovernmental revenues	216,538	214,448	2,090			
Miscellaneous revenues	44,001	85,274	41,273	37,607	14,907	(22,700)
Total revenues, budgetary basis	<u>913,792</u>	<u>992,905</u>	<u>79,113</u>	<u>182,553</u>	<u>204,121</u>	<u>21,568</u>
Expenditures:						
Current operating:						
General government	826,926	758,419	68,507			
Public safety	228,130	228,080	50			
Education	13,450	13,445	5			
Culture and recreation	500		500			
Health and welfare				253,812	187,066	66,746
Roads and highways	245,474	37,338	208,136			
Total expenditures, budgetary basis	<u>1,314,480</u>	<u>1,037,282</u>	<u>277,198</u>	<u>253,812</u>	<u>187,066</u>	<u>66,746</u>
Excess of revenues and beginning fund balances over (under) expenditures, budgetary basis	<u>\$ -</u>	<u>356,699</u>	<u>\$ 356,699</u>	<u>\$ -</u>	<u>88,120</u>	<u>\$ 88,120</u>
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances						
Add: Ad valorem taxes receivable		24,038			6,822	
Accrued interest receivable		1,316				
Due from other governments		1,789				
Reserved for encumbrances		<u>76,408</u>				
Ending fund balances		<u>\$ 460,250</u>			<u>\$ 94,942</u>	

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

**ADAIR COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS- PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2002**

	Adair County Jail Trust Authority
REVENUE	
Sales Tax	\$ 317,814
Total Revenue	317,814
 OPERATING EXPENSES	
Personal Services	37,238
Advertising	64
Operations and Maintenance	603
Professional Fees	1,575
Depreciation	654
License and Permits	587
Bank Charges	173
Interest Expense	1,141
Telephone	789
Total Operating Expenses	42,824
Operating Income	274,990
 NON-OPERATING REVENUE (EXPENSES)	
Investment Income	28,405
Net Income	303,395
Fund Equity at July 1, 2001	1,387,912
Net Income	303,395
Fund Equity at June 30, 2002	\$ 1,691,307

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, 2002**

	Adair County Jail Trust Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	\$ 303,395
 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)	(4,597)
Decrease (Increase) in Interest Receivable	1,654
Increase (Decrease) in Accounts Payable	95,104
 CASH FROM OPERATIONS	396,210
 CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease (Increase) in Buildings	(992,242)
 CASH USED IN INVESTING	(992,242)
 CASH FLOWS FROM FINANCING ACTIVITIES	
 CASH USED IN FINANCING	
Increase in Long-Term Debt	362,995
 Net Increase (Decrease) in Cash	(233,037)
Cash at Beginning of Year	1,071,360
Cash at End of Year	\$ 838,323

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of the 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. Financial 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 accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of Adair County (the primary government) and its legally separate component units.

Discretely Presented Component Units

The component unit column in the combined financial statements 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 that of the discretely presented component unit. The following component unit is 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.

All information included is from the component unit's fiscal year ended June 30, 2002. Complete financial statements of this component unit may be requested from the Adair County Clerk's Office.

Summary of Significant Accounting Policies (continued)

Related Organizations Excluded From the Reporting Entity

The County's 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 appointments. These organizations are not included in the financial statements.

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 three major categories: governmental, proprietary, and fiduciary.

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), and the servicing of general long-term debt (debt service funds). The general fund is used to account for the activities of the general government not accounted for in some other fund.

Proprietary Funds- (Discretely Presented Component Unit)

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.

Summary of Significant Accounting Policies (continued)

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 for those that conflict with GASB pronouncements.

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 or 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), 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).

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 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 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 types 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. 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 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 the County Health Department fund are the only funds required to adopt a formal budget. The budget presented for the general and special revenue (County Health Department only) funds includes 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.

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.

Summary of Significant Accounting Policies (continued)

E. Cash

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. All funds were deposited in interest-bearing demand accounts at June 30, 2002.

F. Receivables

All receivables are reported at their gross value.

G. Interest Receivable

Interest on deposits 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 accounting principles generally accepted in the United States of America, 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%

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 are considered to be work in progress, and therefore, no depreciation has been recorded in relation to this asset.

Summary of Significant Accounting Policies (continued)

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; Association of County Commissioners of Oklahoma-Self-Insured Fund. (See 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 Oklahoma Public Employees Health and Welfare Plan Insurance.	If claims exceed authorized deductibles, the County would have surcharges assessed to pay the excess claims.

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 will pay a deductible amount (\$1,000 to \$10,000; the County has a \$7,500 deductible) for each insured event as stated in the County's "Certificate of Participation." The risk pool will pay 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.

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 will pay 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.

Summary of Significant Accounting Policies (continued)

The County has entered into an interlocal agreement with other governmental entities to participate in a pooled self-insurance fund to provide insurance coverage with Oklahoma Public Employees Health and Welfare Plan. The Plan provides for surcharges to be assessed for claims in excess of pool assets to offset pool deficits. The pool has assessed additional premiums to be paid by its members in the current fiscal year.

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 up to a maximum of 60 days.

Leave is accumulated at the following rates:

<u>Service</u>	<u>Days/Year</u>
0 – 5 years	15
5 – 20 years	18
Over 20 years	20

The amount of accumulated unpaid vacation benefits is not material to the financial statements for the fiscal year ending June 30, 2002.

Sick leave is earned by employees at 10 hours per month. Employees are not paid for accumulated sick leave at termination. Sick leave is conditional on future occurrences, which are uncontrollable by the employee or the County; hence no liability exists at June 30, 2002.

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. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

L. 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.

ADAIR COUNTY, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2002

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

Title 62 O.S. § 348.I authorizes the County Treasurer to invest in:

- U.S. Government obligations
- Certificates of deposit
- Saving 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

A. Deposits

Deposits – Primary Government - At year-end, the carrying amount of the County's deposits was \$3,972,058 and the bank balance was \$4,001,548. 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.

Cash and Equivalents – 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 purpose 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, 2002</u>
Conseco Bank, Inc	07/17/02	2.15%	\$ 98,000.00
MBNA	09/12/02	2.40%	85,000.00
Private Bank & Trust	10/16/02	2.30%	98,000.00
Armstrong Bank	07/14/02	2.07%	51,588.43
Armstrong Bank	07/03/02	2.07%	<u>76,705.38</u>
			\$409,293.81

**ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

Detailed Notes on Account Balances (continued)

Deposit Categories of Credit risk

(A) Insured or collateralized with securities.

(B) Collateralized with securities held by the pledging financial institutions trust department.

(C) Uncollateralized

	CATEGORY			<u>BANK BALANCE</u>	<u>CARRYING AMOUNT</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>		
Cash/Investments	\$481,000.00	\$357,322.89	\$ 0.00	\$838,322.89	\$838,322.89

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 every four (4) years."

The net assessed property value as of January 1, 2001, was \$63,776,185.

The County levied 10.00 mills for general fund operations, 2.50 mills for the County Health Department, and 4.00 mills for the County Library. 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.

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, 2002, 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

Detailed Notes on Account Balances (continued)

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 contributes between 5.0% and 10.0% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 10.0% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2002, 2001, and 2000, were \$92,641, \$89,942, and \$92,705, respectively, equal to the required contributions for each year.

D. Operating Leases

The government is committed under various leases for road machinery and equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2002, amounted to \$9,000.00. There are no operating lease payment requirements for future years.

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. § 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. 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, it is the County's intent to exercise its right to purchase this property; accordingly, the lease-purchase agreements have been capitalized to conform with 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.

ADAIR COUNTY, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2002

Detailed Notes on Account Balances (continued)

Providing all capital leases are renewed each year by resolution of the Board of Commissioners, minimum lease commitments under capitalized lease-purchase agreements as of June 30, 2002, are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 126,072	\$ 9,747	\$ 135,819
2004	114,376	6,768	121,144
2005	87,823	4,016	91,839
2006	70,555	1,716	72,271
2007	26,002		26,002
Total	<u>\$ 424,828</u>	<u>\$ 22,247</u>	<u>\$ 447,075</u>

During the year, the County capitalized leases totaling \$68,155 and paid \$197,785 on the outstanding balances of lease-purchase agreements.

F. Long-Term Debt

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term debt account group:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Capital leases	<u>\$ 554,458</u>	<u>\$ 68,155</u>	<u>\$ 197,785</u>	<u>\$ 424,828</u>
Total	<u>\$ 554,458</u>	<u>\$ 68,155</u>	<u>\$ 197,785</u>	<u>\$ 424,828</u>

Note Payable – Component Unit

The note payable as of June 30, 2002, represents a Community Facilities Loan provided by the Department of Agriculture (Rural Housing Service), to be used for the construction, acquisition, and equipping of criminal justice facilities in Adair County, Oklahoma. The balance at June 30, 2002, is \$362,994.70. Interest is being charged at 4.50%, payable interest only for first two years, and thereafter monthly installments of \$9,869. The note is secured by the ½ percent sales tax levied by the State of Oklahoma upon gross proceeds or gross receipts from all sales or services in Adair County.

ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

Detailed Notes on Account Balances (continued)

Maturities of the note in each of the next five years are as follows:

2003	0
2004	1,807
2005	1,813
2006	1,820
2007	1,827

At June 30, 2002, the fair value of the note payable approximates the amounts recorded in the financial statements.

G. Fund Equity

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. 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.

H. 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 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.

I. 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 county population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads 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

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.

**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, 2002, and have issued our report thereon dated October 28, 2002. We did not audit the financial statements of the Adair County Jail Trust Authority. Those financial statements were audited by another auditor 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 enterprise fund, 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. We qualified our opinion because the general fixed assets account group was not included in the general-purpose financial statements.

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, and contracts, 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 condition is described below.

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. The County does not maintain a summary listing with the required information for land, buildings, and improvements. The general fixed assets control account is not accurate.

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: None

Corrective Action Planned: No planned corrective action is anticipated to obtain fixed assets 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.

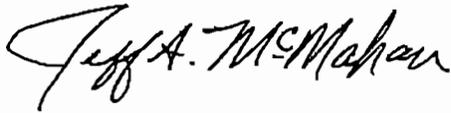
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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 the reportable condition described above to be a material weakness.

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 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. McMahon". The signature is written in a cursive style with a large, stylized initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

October 28, 2002