

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

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



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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



**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**MEADE COUNTY FISCAL COURT**

**June 30, 2015**

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

We have issued a modified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Meade County Fiscal Court.

**Financial Condition:**

The Meade County Fiscal Court had total receipts of \$12,112,374 and disbursements of \$11,573,805 in fiscal year 2015. This resulted in a total ending fund balance of \$7,062,803, which is an increase of \$538,569 from the prior year.

**Report Comments:**

- 2015-001 The Meade County Fiscal Court Lacks Adequate Segregation Of Duties In Receipts Procedures
- 2015-002 Internal Controls Over Receipts Collected At Off-Site Locations Are Not Adequate To Address The Risk Of Error Or Fraud
- 2015-003 The Former Jailer Failed To Deposit All Funds Received Intact Daily And Maintain Sufficient, Accurate Accounting Records To Support Transactions
- 2015-004 The Former Jailer Did Not Maintain Complete Records For Phone Cards
- 2015-005 The Former Jailer Made Purchases From The Commissary Account That Did Not Comply With State Law
- 2015-006 The Meade County Detention Center Did Not Charge Or Collect Sales Tax On Prepaid Phone Cards Sold To Inmates
- 2015-007 The Meade County Detention Center Lacks Adequate Segregation Of Duties In Commissary Receipts And Inventory

**Deposits:**

The fiscal court deposits were insured and collateralized by bank securities.



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
MEADE COUNTY OFFICIALS .....	5
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS .....	8
NOTES TO FINANCIAL STATEMENT .....	11
BUDGETARY COMPARISON SCHEDULES .....	23
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES .....	28
SCHEDULE OF CAPITAL ASSETS .....	31
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS .....	32
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	35
COMMENTS AND RECOMMENDATIONS.....	39
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Gerry Lynn, Meade County Judge/Executive  
Members of the Meade County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

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

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

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



To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Gerry Lynn, Meade County Judge/Executive  
Members of the Meade County Fiscal Court

### **Auditor's Responsibility (Continued)**

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

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

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

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

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Meade County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Basis for Modified Opinion on Regulatory Basis of Accounting**

Meade County's Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis, includes the receipts and disbursements of the Jail Commissary Fund, which did not maintain adequate accounting records. Since the Jail Commissary Fund accounting records were not adequate, the financial information presented for the receipts, disbursements, and fund balance of the Meade County Jail Commissary Fund cannot be determined to be reasonably accurate.

### **Modified Opinion on Regulatory Basis of Accounting**

In our opinion, except for the effects of the matters discussed in the "Basis for Modified Opinion on Regulatory Basis of Accounting" paragraph, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Meade County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.



To the People of Kentucky  
 Honorable Matthew G. Bevin, Governor  
 William M. Landrum III, Secretary  
 Finance and Administration Cabinet  
 Honorable Gerry Lynn, Meade County Judge/Executive  
 Members of the Meade County Fiscal Court

## **Other Matters**

### *Supplementary Information*

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

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2016 on our consideration of the Meade County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Meade County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2015-001 The Meade County Fiscal Court Lacks Adequate Segregation Of Duties In Receipts Procedures
- 2015-002 Internal Controls Over Receipts Collected At Off-Site Locations Are Not Adequate To Address The Risk Of Error Or Fraud
- 2015-003 The Former Jailer Failed To Deposit All Funds Received Intact Daily And Maintain Sufficient, Accurate Accounting Records To Support Transactions
- 2015-004 The Former Jailer Did Not Maintain Complete Records For Phone Cards
- 2015-005 The Former Jailer Made Purchases From The Commissary Account That Did Not Comply With State Law

To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Gerry Lynn, Meade County Judge/Executive  
Members of the Meade County Fiscal Court

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

- 2015-006 The Meade County Detention Center Did Not Charge Or Collect Sales Tax On Prepaid Phone Cards Sold To Inmates
- 2015-007 The Meade County Detention Center Lacks Adequate Segregation Of Duties In Commissary Receipts And Inventory

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

April 19, 2016

MEADE COUNTY OFFICIALS

For The Year Ended June 30, 2015

**Fiscal Court Members:**

Gerry Lynn	County Judge/Executive
Thomas Goddard	Magistrate
Donald Eli Dix Jr.	Magistrate
Billy Sipes	Magistrate
Gary Chapman	Magistrate
Steve Wardrip	Magistrate
Randall Hardesty	Magistrate

**Other Elected Officials:**

Jessica Brown Roberts	County Attorney
John Justin Scarborough	Jailer
Judy Jordan	County Clerk
Evelyn D. Medley	Circuit Court Clerk
William Kerrick	Sheriff
Rebecca Richardson	Property Valuation Administrator
William R. Adams III	Coroner

**Appointed Personnel:**

Tammy Weick	County Treasurer
Mandy Sturgeon	Payroll Officer
Timmi Jupin	Finance Officer

THIS PAGE LEFT BLANK INTENTIONALLY

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

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

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

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

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
<b>RECEIPTS</b>			
Taxes	\$ 4,764,022	\$	\$
Excess Fees	85,383		
Licenses and Permits	113,662		
Intergovernmental	770,612	1,907,074	1,003,188
Charges for Services	1,165,233	10,679	83,860
Miscellaneous	351,102	6,162	139,461
Interest	11,569	1,766	58
Total Receipts	<u>7,261,583</u>	<u>1,925,681</u>	<u>1,226,567</u>
<b>DISBURSEMENTS</b>			
General Government	1,503,841		2,506
Protection to Persons and Property	1,338,180		1,358,040
General Health and Sanitation	77,661		
Social Services	6,704		
Recreation and Culture	239,986		
Roads		2,153,002	
Debt Service	752,331		360,400
Capital Projects			
Administration	1,531,271	177,849	344,408
Total Disbursements	<u>5,449,974</u>	<u>2,330,851</u>	<u>2,065,354</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,811,609</u>	<u>(405,170)</u>	<u>(838,787)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds			825,000
Transfers To Other Funds	(825,000)		
Total Other Adjustments to Cash (Uses)	<u>(825,000)</u>		<u>825,000</u>
Net Change in Fund Balance	986,609	(405,170)	(13,787)
Fund Balance - Beginning	4,905,548	760,829	104,676
Fund Balance - Ending	<u>\$ 5,892,157</u>	<u>\$ 355,659</u>	<u>\$ 90,889</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 4,229,494	\$ 358,366	\$ 100,864
Plus: Deposits In Transit			
Less: Outstanding Checks	(116,496)	(2,707)	(9,975)
Plus: Certificates of Deposit	1,779,159		
Fund Balance - Ending	<u>\$ 5,892,157</u>	<u>\$ 355,659</u>	<u>\$ 90,889</u>

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

**MEADE COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<u>Budgeted Funds</u>		<u>Unbudgeted Fund</u>	
<u>LGEA Fund</u>	<u>Solid Waste and Recycling Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
\$	\$ 973	\$	\$ 4,764,995
			85,383
			113,662
557,957	326,605		4,565,436
135,953	223,990		1,619,715
	275,879	175,620	948,224
861	705		14,959
<u>694,771</u>	<u>828,152</u>	<u>175,620</u>	<u>12,112,374</u>
			1,506,347
493,291			3,189,511
	798,630		876,291
			6,704
		178,774	418,760
			2,153,002
			1,112,731
125,487	22,929		148,416
	108,515		2,162,043
<u>618,778</u>	<u>930,074</u>	<u>178,774</u>	<u>11,573,805</u>
<u>75,993</u>	<u>(101,922)</u>	<u>(3,154)</u>	<u>538,569</u>
			825,000
			<u>(825,000)</u>
75,993	(101,922)	(3,154)	538,569
272,453	411,871	68,857	6,524,234
<u>\$ 348,446</u>	<u>\$ 309,949</u>	<u>\$ 65,703</u>	<u>\$ 7,062,803</u>
\$ 349,256	\$ 322,884	\$ 65,913	\$ 5,426,777
	32,240		32,240
(810)	(45,175)	(210)	(175,373)
			1,779,159
<u>\$ 348,446</u>	<u>\$ 309,949</u>	<u>\$ 65,703</u>	<u>\$ 7,062,803</u>

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

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	11
NOTE 2.	DEPOSITS .....	14
NOTE 3.	TRANSFERS .....	14
NOTE 4.	LONG-TERM DEBT .....	14
NOTE 5.	COMMITMENT DEBT AND CONTINGENCIES.....	17
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM .....	17
NOTE 7.	DEFERRED COMPENSATION.....	19
NOTE 8.	INSURANCE .....	19
NOTE 9.	CONDUIT DEBT .....	19



**MEADE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2015**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

The following entities: Meade County Riverport Authority would have been included in the reporting entity under accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board. However under the regulatory basis they are no longer are required components of the reporting entity.

**B. Basis of Accounting**

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

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

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

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

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

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Solid Waste and Recycling Fund - The primary purpose of this fund is to account for receipts and disbursements related to collection of solid waste and recycling service in Meade County.

**Unbudgeted Fund**

The fiscal court reports the following unbudgeted fund:

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

**D. Budgetary Information**

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

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Information (Continued)**

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of this fund.

**E. Meade County Elected Officials**

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

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

**F. Deposits and Investments**

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

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

**G. Long-term Obligations**

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

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

**Note 2. Deposits**

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Transfers**

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

	General Fund	Total Transfers In
Jail Fund	\$ 825,000	\$ 825,000
Total Transfers Out	<u>\$ 825,000</u>	<u>\$ 825,000</u>

Reason for transfers:

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

**Note 4. Long-term Debt**

**A. Health Care Facility Revenue Bonds, Series 1995**

The Meade County Fiscal Court issued health care facility revenue bonds, series 1995, dated February 1, 1995, to fund the construction of a health care facility to be operated by JH Properties, Inc. JH Properties makes the principal and interest payments in lieu of rent, to the bond trustee. These bonds were issued at an interest rate of 6.49%, and will be retired by October 1, 2014. Interest payments are due on April 1 and interest and principal are due on October 1. The balance was paid in full October 1, 2014.

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

**Note 4. Long-term Debt (Continued)**

**B. Water District-Financing Obligations and Notes Receivable**

**1. Water Lines**

On November 8, 1995, the fiscal court, on behalf of the Meade County Water District, entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$795,000 at 5.15%, for the construction of waterlines. The lease term is for 20 years with the balance to be paid in full on January 20, 2015. The Meade County Water District makes the principal and interest payments to the fiscal court, which in turn pays the trustee. The balance was paid in full February 9, 2015.

**2. Building**

On December 18, 2001, the fiscal court, on behalf of the Meade County Water District, entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$350,000 at 4.6%, for the construction of a building. The lease term is for 15 years with the balance to be paid in full on January 20, 2016. The Meade County Water District makes the principal and interest payments to the fiscal court, which in turn pays the trustee. Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 30,000	\$ 942
Totals	<u>\$ 30,000</u>	<u>\$ 942</u>

**C. General Obligation Bonds, Refunding Series 2009-Detention Facility**

The Meade County Fiscal Court issued general obligation bonds of \$3,090,000, series 2009, dated December 8, 2009, to advance refund the Meade County general obligation bonds (Detention Facility), Series 1999, dated July 1, 1999. The 2009 series bonds were issued at varying interest rates ranging from 2.5% to 3.50%, and will be retired by July 1, 2019. Interest payments are due on January 1 and interest and principal due July 1. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 315,000	\$ 42,650
2017	330,000	33,200
2018	340,000	23,300
2019	350,000	12,250
Totals	<u>\$ 1,335,000</u>	<u>\$ 111,400</u>

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

**Note 4. Long-term Debt (Continued)**

**D. General Obligation Bonds, Refunding Series 2012-Industrial Park Land**

The Meade County Fiscal Court issued general obligation bonds of \$5,750,000, Series 2012, dated March 29, 2012 to advance refund and retire the Lease Agreement between the Meade County Fiscal Court and the Kentucky Association of Counties Leasing Trust, dated March 16, 2006. The 2012 series bonds were issued at varying interest rates ranging from 1.125% to 2.70% and will be retired by May 1, 2026. Interest payments are due on May 1 and November 1 and principal is due May 1. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 310,000	\$ 83,095
2017	315,000	79,375
2018	315,000	75,595
2019	320,000	69,295
2020	325,000	62,895
2021-2025	1,775,000	187,100
2026	385,000	10,395
Totals	<u>\$ 3,745,000</u>	<u>\$ 567,750</u>

**E. Changes In Long-term Debt**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 5,695,000	\$	\$ 615,000	\$ 5,080,000	\$ 625,000
Revenue Bonds	145,000		145,000		
Financing Obligations	122,000		92,000	30,000	30,000
Total Long-term Debt	<u>\$ 5,962,000</u>	<u>\$</u>	<u>\$ 852,000</u>	<u>\$ 5,110,000</u>	<u>\$ 655,000</u>

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

**Note 5. Commitment Debt and Contingencies**

On January 1, 2010, the Meade County Riverport Authority entered into an agreement with the Kentucky Infrastructure Authority (KIA) in the amount of \$482,642 at 3.0% for the construction of a wastewater and sewer system on land owned by the Meade County Fiscal Court for business activity along the Ohio River. The revolving construction loan draws received by the Meade County Riverport Authority from KIA as of June 24, 2011 was \$482,642. The principal forgiveness on the loan totaled \$251,456, leaving \$231,186 as the amortized loan amount. The Meade County Fiscal Court is scheduled to remit the required principal and interest payments effective December 1, 2011. The loan term is 20 years with the balance to be paid in full on June 1, 2031. The Meade County Fiscal Court paid principal of \$9,386 and interest of \$6,474 for the fiscal year ended June 30, 2015. The principal due on the revolving loan as of June 30, 2015 is \$195,261.

On September 9, 2013, the Meade County Riverport Authority, as borrower and recipient, and the Meade County Fiscal Court, as the co-signor on the loan, entered into an agreement with the Kentucky Agricultural Development Board (KADB) in the amount of \$2,000,000 at 1% for the construction of a regional port facility, Consolidated Grain and Barge Co. along the Ohio River in Meade County. The cost reimbursement construction loan draws received by the Meade County Riverport Authority from KADB as of June 30, 2015 totaled \$2,000,000. The Meade County Riverport Authority shall not have to make any principal or interest payments during the first two years after the effective date of the loan agreement. Consolidated Grain and Barge Company remits base rent payments quarterly totaling \$110,000 a year to the Meade County Fiscal Court. Meade County Fiscal Court is scheduled to remit the required principal and interest payments on the loan effective September 9, 2016. The loan term is for twenty years. The principal due on the revolving loan as of June 30, 2015 is \$2,000,000.

**Note 6. Employee Retirement System**

**A. Plan Description**

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

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

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

**Note 6. Employee Retirement System (Continued)**

**A. Plan Description (Continued)**

The county's contribution for FY 2013 was \$698,450, FY 2014 was \$712,024, and FY 2015 was \$708,902.

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

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

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

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

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

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

**B. Net Pension Liability**

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

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	<u>\$ 6,667,000</u>	<u>\$ 5,892,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at [www.kyret.ky.gov](http://www.kyret.ky.gov) or can be obtained as described in the paragraph above.



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

**Note 7. Deferred Compensation**

On June 5, 1990, the Meade County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 8. Insurance**

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

**Note 9. Conduit Debt**

The Meade County Fiscal Court has issued \$6,000,000 of 1999 series revenue bonds dated April 1, 1999 to provide financial assistance to Liter's Quarry, Inc. for the acquisition, construction and installation of equipment, to be used for the mining, processing and shipping of limestone and limestone products deemed to be in the public interest, in accordance with KRS 103.210. Although conduit debt obligations bear the Meade County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2015, Meade County Fiscal Court's conduit debt of \$6,000,000 of 1999 series revenue bonds has been issued but the amount currently outstanding is not reasonably determinable.

THIS PAGE LEFT BLANK INTENTIONALLY

**MEADE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

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



**MEADE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

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

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 4,231,006	\$ 4,231,006	\$ 4,764,022	\$ 533,016
Excess Fees	164,680	164,680	85,383	(79,297)
Licenses and Permits	126,384	126,384	113,662	(12,722)
Intergovernmental	1,533,772	1,533,772	770,612	(763,160)
Charges for Services	907,500	907,500	1,165,233	257,733
Miscellaneous	238,160	238,160	201,397	(36,763)
Interest	5,000	5,000	11,569	6,569
Total Receipts	<u>7,206,502</u>	<u>7,206,502</u>	<u>7,111,878</u>	<u>(94,624)</u>
<b>DISBURSEMENTS</b>				
General Government	2,718,097	2,718,097	1,503,841	1,214,256
Protection to Persons and Property	1,493,344	1,493,344	1,338,180	155,164
General Health and Sanitation	104,814	104,814	77,661	27,153
Social Services	14,540	14,540	6,704	7,836
Recreation and Culture	406,400	406,400	239,986	166,414
Debt Service	504,405	604,905	602,626	2,279
Administration	1,982,410	1,881,910	1,531,271	350,639
Total Disbursements	<u>7,224,010</u>	<u>7,224,010</u>	<u>5,300,269</u>	<u>1,923,741</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(17,508)</u>	<u>(17,508)</u>	<u>1,811,609</u>	<u>1,829,117</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds				
Transfers To Other Funds	<u>(1,566,811)</u>	<u>(1,566,811)</u>	<u>(825,000)</u>	<u>741,811</u>
Total Other Adjustments to Cash (Uses)	<u>(1,566,811)</u>	<u>(1,566,811)</u>	<u>(825,000)</u>	<u>741,811</u>
Net Change in Fund Balance	<u>(1,584,319)</u>	<u>(1,584,319)</u>	<u>986,609</u>	<u>2,570,928</u>
Fund Balance Beginning	<u>1,584,319</u>	<u>1,584,319</u>	<u>4,905,548</u>	<u>3,321,229</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,892,157</u>	<u>\$ 5,892,157</u>

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

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,720,497	\$ 2,596,516	\$ 1,907,074	\$ (689,442)
Charges for Services	30,000	30,000	10,679	(19,321)
Miscellaneous	6,000	6,000	6,162	162
Interest	1,000	1,000	1,766	766
Total Receipts	<u>1,757,497</u>	<u>2,633,516</u>	<u>1,925,681</u>	<u>(707,835)</u>
<b>DISBURSEMENTS</b>				
Roads	2,264,497	3,140,516	2,153,002	987,514
Administration	283,000	283,000	177,849	105,151
Total Disbursements	<u>2,547,497</u>	<u>3,423,516</u>	<u>2,330,851</u>	<u>1,092,665</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(790,000)</u>	<u>(790,000)</u>	<u>(405,170)</u>	<u>384,830</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	200,000	200,000		(200,000)
Total Other Adjustments to Cash (Uses)	<u>200,000</u>	<u>200,000</u>		<u>(200,000)</u>
Net Change in Fund Balance	(590,000)	(590,000)	(405,170)	184,830
Fund Balance Beginning	<u>590,000</u>	<u>590,000</u>	<u>760,829</u>	<u>170,829</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 355,659</u>	<u>\$ 355,659</u>

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

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 911,493	\$ 911,493	\$ 1,003,188	\$ 91,695
Charges for Services	51,500	51,500	83,860	32,360
Miscellaneous	44,000	44,000	139,461	95,461
Interest	500	500	58	(442)
Total Receipts	<u>1,007,493</u>	<u>1,007,493</u>	<u>1,226,567</u>	<u>219,074</u>
<b>DISBURSEMENTS</b>				
General Government	5,247	5,247	2,506	2,741
Protection to Persons and Property	1,416,576	1,448,926	1,358,040	90,886
General Health and Sanitation	40,000	7,650		7,650
Debt Service	360,400	360,400	360,400	
Administration	407,081	407,081	344,408	62,673
Total Disbursements	<u>2,229,304</u>	<u>2,229,304</u>	<u>2,065,354</u>	<u>163,950</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(1,221,811)</u>	<u>(1,221,811)</u>	<u>(838,787)</u>	<u>383,024</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	1,146,811	1,146,811	825,000	(321,811)
Total Other Adjustments to Cash (Uses)	<u>1,146,811</u>	<u>1,146,811</u>	<u>825,000</u>	<u>(321,811)</u>
Net Change in Fund Balance	(75,000)	(75,000)	(13,787)	61,213
Fund Balance Beginning	<u>75,000</u>	<u>75,000</u>	<u>104,676</u>	<u>29,676</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 90,889</u>	<u>\$ 90,889</u>

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

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 434,200	\$ 434,200	\$ 557,957	\$ 123,757
Charge for Services	120,000	120,000	135,953	15,953
Interest	1,000	1,000	861	(139)
Total Receipts	<u>555,200</u>	<u>555,200</u>	<u>694,771</u>	<u>139,571</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	753,727	753,727	493,291	260,436
Administration	191,473	191,473	125,487	65,986
Total Disbursements	<u>945,200</u>	<u>945,200</u>	<u>618,778</u>	<u>326,422</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(390,000)</u>	<u>(390,000)</u>	<u>75,993</u>	<u>465,993</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>70,000</u>	<u>70,000</u>		<u>(70,000)</u>
Total Other Adjustments to Cash (Uses)	<u>70,000</u>	<u>70,000</u>		<u>(70,000)</u>
Net Change in Fund Balance	(320,000)	(320,000)	75,993	395,993
Fund Balance Beginning	<u>320,000</u>	<u>320,000</u>	<u>272,453</u>	<u>(47,547)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 348,446</u>	<u>\$ 348,446</u>



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

**SOLID WASTE AND RECYCLE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,650	\$ 1,650	\$ 973	\$ (677)
Intergovernmental	225,700	225,700	326,605	100,905
Charge for Services	226,500	226,500	223,990	(2,510)
Miscellaneous	316,800	316,800	275,879	(40,921)
Interest	1,200	1,200	705	(495)
Total Receipts	<u>771,850</u>	<u>771,850</u>	<u>828,152</u>	<u>56,302</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	979,850	1,017,850	798,630	219,220
Capital Projects	100,000	62,000	22,929	39,071
Administration	117,000	117,000	108,515	8,485
Total Disbursements	<u>1,196,850</u>	<u>1,196,850</u>	<u>930,074</u>	<u>266,776</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(425,000)</u>	<u>(425,000)</u>	<u>(101,922)</u>	<u>323,078</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>150,000</u>	<u>150,000</u>		<u>(150,000)</u>
Total Other Adjustments to Cash (Uses)	<u>150,000</u>	<u>150,000</u>		<u>(150,000)</u>
Net Change in Fund Balance	(275,000)	(275,000)	(101,922)	173,078
Fund Balance Beginning	<u>275,000</u>	<u>275,000</u>	<u>411,871</u>	<u>136,871</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 309,949</u>	<u>\$ 309,949</u>

**MEADE COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2015**

**Note 1. Budgetary Information**

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

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of the General Fund**

The Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis differs from the Budgetary Comparison Schedule for the General Fund for in miscellaneous receipts and debt service by \$149,705 due to debt service payments remitted by JH Properties directly to the trustee.

**MEADE COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**



**MEADE COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

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

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 7,811,651	\$	\$	\$ 7,811,651
Buildings and Building Improvements	10,024,059			10,024,059
Vehicles	2,996,392	190,476		3,186,868
Machinery and Equipment	2,998,050	9,959		3,008,009
Infrastructure	5,561,463	1,174,021		6,735,484
Total Capital Assets	<u>\$ 29,391,615</u>	<u>\$ 1,374,456</u>	<u>\$</u>	<u>\$30,766,071</u>

**MEADE COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2015**

**Note 1. Capital Assets**

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings and Building Improvements	\$ 5,000	3-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50

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







**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Gerry Lynn, Meade County Judge/Executive  
Members of the Meade County Fiscal Court

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

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Meade County Fiscal Court for the fiscal year ended June 30, 2015 and the related notes to the financial statement which collectively comprise the Meade County Fiscal Court's financial statement and have issued our report thereon dated April 19, 2016, wherein we issued a modified opinion since accounting records for the Jail Commissary Fund were not adequate and the financial information presented for the receipts, disbursements, and fund balance of the Meade County Jail Commissary Fund could not be determined to be reasonably accurate.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2015-003 to be a material weakness.



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

**Internal Control Over Financial Reporting (Continued)**

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-004, 2015-005, and 2015-007 to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Meade County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-002, 2015-003, 2015-004, 2015-005, and 2015-006.

**County Judge/Executive's Responses to Findings**

The Meade County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The Meade County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Jailer's and Former County Jailer's Responses to Findings**

The Meade County Jailer's and the former Meade County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The Meade County Jailer's and the former Meade County Jailer's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

April 19, 2016

**MEADE COUNTY  
COMMENTS AND RECOMMENDATIONS**

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



**MEADE COUNTY**  
**COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2015**

**FINANCIAL STATEMENT FINDINGS:**

2015-001 The Meade County Fiscal Court Lacks Adequate Segregation Of Duties In Receipts Procedures

During fiscal year 2015, the Meade County Treasurer prepared and deposited receipts, posted receipts to the accounting system, prepared monthly reports for fiscal court and quarterly reports for the Department for Local Government, made cash transfers between funds and bank accounts, and performed bank reconciliations. There was no review by another person to ensure daily deposits agree to the receipts ledger. Funds are also collected by other departments, such as solid waste, parks, and EMS without sufficient review. There are some compensating controls in place, including oversight in daily operations and review of reports and bank reconciliations by the county judge/executive; however, not all of these controls are evidenced in writing and alone are not sufficient to mitigate the risk of material error or fraud.

The fiscal court has not implemented a policy to ensure segregated duties or sufficient compensating controls. Lack of adequate segregation of duties and too much control by one individual could result in the undetected misappropriation of assets, errors, and inaccurate financial reporting.

Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the county cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system.

We recommend the fiscal court strengthen internal controls by segregating the duties involved in receiving, recording, reconciling, and reporting receipts. If segregation is not possible, we recommend further compensating controls, such as a receipt listing prepared by another person to compare to deposit tickets and ledger posting and documentation of oversight and review by a second person.

*County Judge/Executive's Response: Meade County Fiscal Court has implemented a process of strengthening the internal controls by segregating the duties involved in receiving, recording, reconciling, and reporting reports.*

2015-002 Internal Controls Over Receipts Collected At Off-Site Locations Are Not Adequate To Address The Risk Of Error Or Fraud

We reviewed receipt documentation available from off-site locations, including solid waste, animal control, parks and recreation, EMS, the jail, and planning and zoning. While the county treasurer receives documentation from off-site locations supporting the amount deposited into the various bank accounts, there was not sufficient documentation for her to account for all receipts issued and balance receipts to the deposit.

We noted the following control deficiencies:

- Pre-numbered three part receipts are not issued for all funds collected at all locations.
- Collections from off-site locations were not balanced to receipts to determine if they were all accounted for and that total cash and checks submitted to the county treasurer agree to the total of the receipts.
- All departments use generic receipts instead of receipts unique to the county.

**MEADE COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**FINANCIAL STATEMENT FINDINGS: (CONTINUED)**

2015-002 Internal Controls Over Receipts Collected At Off-Site Locations Are Not Adequate To Address The Risk Of Error Or Fraud (Continued)

---

Two departments that collect receipts significant to the county's financial statements had additional issues.

Solid Waste

During review of receipt procedures we noted cash, checks, and credit card payments receipts collected and deposited by the solid waste office manager. Sufficient documentation was maintained by the department for audit procedures, including receipts for each transaction. Voided receipts were also maintained. The office manager prepares the deposit, records the receipt activity, and reconciles the bank account without review by another person. The solid waste department keeps a \$500 change fund in cash in the office and maintains an approximate balance of \$19,000 balance in the bank account. Keeping this much cash on hand and in the bank account increases the risk that fraud or errors could occur and go undetected. Further, the lack of segregation of duties in the receipts processing in this department further increases that risk.

- **Garbage Fees:** During review of collection of the county's garbage fees by a third party organization, we noted the organization has the capability of providing a report showing collection activity. However, this report is received and maintained in the solid waste department and has not been requested or required by the county treasurer. By not requesting a system report to reconcile the check to, the fiscal court has not implemented sufficient controls over the activity performed by the outside organization. An error or fraud could occur at the organization that would reduce the amount sent to the fiscal court; however, this would go unnoticed by the treasurer without a collection report to compare to the check. Good internal controls dictate that deposits be reconciled to receipts, or in this case, a system generated report, to ensure all transactions are included.

Ambulance

During review of receipt procedures we noted cash, checks, and credit card payments receipts collected and deposited by the ambulance billing clerk. Sufficient documentation was maintained by the department for audit procedures, but receipts were not prepared for all transactions. The ambulance billing clerk receives and processes payments, prepares the deposit, records the receipt activity, and reconciles the bank account without review by another person. This lack of segregation of duties in the receipts processing in this department increases the risk of fraud or error occurring and not being detected or prevented.

The fiscal court does not have a policy in place to ensure sufficient internal controls are in place in all departments that receive payments, including: segregating duties so that one person does not have complete controls during the receipt process and requiring all departments to issue three-part receipts for every transaction or a policy to ensure all receipts are accounted for by the county treasurer by balancing receipts to cash/checks. Without these policies, the risk of fraud or error increases significantly. Lack of sufficient internal controls could result in the misappropriation of assets, errors that go unnoticed, and/or inaccurate financial reporting which could occur and go undetected.

**MEADE COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**FINANCIAL STATEMENT FINDINGS: (CONTINUED)**

2015-002 Internal Controls Over Receipts Collected At Off-Site Locations Are Not Adequate To Address The Risk Of Error Or Fraud (Continued)

---

The Department for Local Government's County Budget Preparation and State Local Finance Officer Manual requires all governmental officials handling public funds to issue a three part pre-numbered receipt. KRS 64.840(2) requires "One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit." Good internal controls dictate sufficient internal controls be in place in all departments that collect payments for the county, including ensuring duties are segregated, receipts are issued for all transactions, and balancing cash/checks to receipt documentation by another person.

We recommend fiscal court comply with KRS 64.840 and implement the following procedures:

- Pre-numbered receipts should be written and maintained for all monies collected, regardless of whether or not the customer requests a receipt.
- All three copies of any voided receipts should be maintained.
- All monies and copy of batched receipts should be given to the county treasurer.
- The county treasurer should review all receipts to check for missing receipt numbers and compare the cash to the total of receipts to ensure all cash is accounted for properly.
- Reconciliation should be done between the treasurer and each department to ensure agreement of the amount of receipts collected and posted.

We recommend the fiscal court implement sufficient segregation of duties or review by a second person of receipts collections at the solid waste department and the EMS department. We also recommend the amount of cash kept on hand by the solid waste department for a change fund and the bank account balance be reduced to lessen the risk of fraud or errors. In addition, the fiscal court should improve oversight and controls over the activity provided by the service organization by requiring a system generated report that supports the amount of the check sent to the treasurer for monthly garbage fee collections.

We also recommend the county consider getting three-part receipt books that are unique to the county and pre-numbered so that each off-site location will have the same receipt to issue to customers. The books should be controlled and distributed by the treasurer to all departments that collect payments from taxpayers.

*County Judge/Executive's Response: Meade County Fiscal Court has implemented a three-part receipt book that are unique to the county and pre-numbered so that each off-site location will have the same receipt to issue to customers. All monies and copy of batched receipts are being given to the County Treasurer.*

2015-003 The Former Jailer Failed To Deposit All Funds Received Intact Daily And Maintain Sufficient, Accurate Accounting Records To Support Transactions

---

Numerous issues were noted with the Meade County Detention Center's commissary account during the first half of fiscal year 2015, including:

- Adequate records were not maintained for phone cards. See finding 2015-004.
- Disbursements totaling \$5,063 did not meet the criteria for use of jail commissary funds. See finding 2015-005.
- Sales tax was not collected on phone card sales. See finding 2015-006.

**MEADE COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**FINANCIAL STATEMENT FINDINGS: (CONTINUED)**

2015-003 The Former Jailer Failed To Deposit All Funds Received Intact Daily And Maintain Sufficient, Accurate Accounting Records To Support Transactions (Continued)

---

- Cash was often given to the treasurer for “jail fees” without supporting documentation to indicate how much was for bond fees, per diem, booking fees or medical.
- Deposits of cash and money orders were often voided in the accounting system.
- Voids and write-off transactions were routinely used to force balance the daily checkout sheet total to the deposit total, meaning while the total deposit agreed to the total daily checkout sheet for the date, the transactions and make-up of the deposit differed from what was posted in the accounting system on that date.
- Personal checks and two-party checks from detention center employees were routinely cashed in the deposit. Thirty checks totaling \$1,548 were included in bank deposits reviewed.
- Some disbursement checks cleared the bank with different amounts and payees than recorded in the accounting records.
- Deposits of money orders were often entered into the accounting records as “cash” and cash was often entered as “money order” obscuring an adequate audit trail of transactions.
- Money orders received were not deposited on the day they were recorded in the accounting records. Some were not deposited until weeks later.
- Money orders designated for one inmate were entered into another inmate’s account.
- Money orders were voided in the accounting system but cleared the bank.
- Payments from the collection agency responsible for collecting former inmate balances were not always posted in the accounting system to the correct inmate.
- Two instances of money orders listed twice on the daily checkout sheet resulting in two inmates receiving credit for the same funds on two different occasions.
- Some inmates were not charged booking or per diem fees, without any explanation.
- One inmate contacted by the current jailer for a past balance due provided a detention center receipt marked “paid in full” showing he had paid the balance due of \$525 in December 2014. There was no posting to his account for this amount or on the daily checkout sheet for the date of the receipt.
- Phone cards noted as “void” in the accounting system were found to have been used.
- Per diem was charged and written off numerous times, sometimes within the same inmate’s account and on the same date.
- Activity on dormant inmate accounts, such as per diem charged to dormant accounts and written off the same date.
- Inconsistencies were so numerous between reports generated in the accounting system and between accounting system reports and the bank that it was impossible to determine which reports, if any, were accurate.

The former jailer failed to administer the jail commissary account in a way that provided clear, accurate records. The lack of sufficient accounting procedures and records for the jail commissary account increases the risk that fraud or a material error could happen and not be prevented or detected. Because of the extent and nature of the issues noted, we cannot provide an opinion on whether the jail commissary account information on the county’s financial statement is materially accurate.



**MEADE COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2015  
(Continued)**

**FINANCIAL STATEMENT FINDINGS: (CONTINUED)**

2015-003 The Former Jailer Failed To Deposit All Funds Received Intact Daily And Maintain Sufficient, Accurate Accounting Records To Support Transactions (Continued)

---

Jail commissary accounts are authorized by KRS 441.135. According to KRS 441.135, “(1) The jailer may maintain a canteen for the benefit of prisoners lodged in the jail and may assign such jail employees and prisoners to operate the canteen as are necessary for efficient operation. (2) All profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners. The jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account.”

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Jailers are provided guidelines for minimum accounting and reporting standards for the jail commissary in the *County Budget Preparation and State Local Finance Officer Policy Manual*. The former jailer should have implemented the accounting procedures and maintained the records described in that manual. Strong internal controls and proper accounting procedures are vital in ensuring that the jail commissary is accounted for properly. They are also important in protecting the assets of the jail commissary, as well as those given the responsibility of accounting for them. Because the former jailer failed to have either in place, the aforementioned findings occurred.

In response to these findings, we make the following recommendations to the current jailer:

- The jailer should ensure accurate accounting records are maintained for all transactions processed in the jail commissary account.
- The jailer should deposit all funds intact daily. The amount deposited should agree with the corresponding day’s check-out sheet in total and make-up.
- Cashing of personal and two-party checks should be prohibited.
- The use of transaction “voids” should be restricted to error correction and should be approved by a supervisor.
- Excessive use of voids, write-offs or any other adjusting entries should be investigated.
- Phone card transactions should be documented in the accounting system and adequate records maintained to document the disposition of all cards.
- Booking and per diem charges should be levied consistently to every inmate subject to fees. “Write-offs” of these fees should be minimized and should be authorized by a supervisor.
- Disbursement checks should be posted accurately in the accounting system and should be reviewed for accuracy.

*County Judge/Executive’s Response: No response provided.*

*Former Jailer’s Response: No response provided.*

*Current Jailer’s Response: As current jailer, I appreciate the help of the auditor’s office and all recommendations made to me. These recommendations will be followed and integrated into our policy and procedure manual.*

2015-004 The Former Jailer Did Not Maintain Complete Records For Phone Cards

---

Jail commissaries often sell phone cards to inmates. The jail purchases the cards for less than face value and sells the cards at face value to generate profit for the commissary account. The former Meade County Jailer

**MEADE COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2015  
(Continued)**

**FINANCIAL STATEMENT FINDINGS: (CONTINUED)**

2015-004 The Former Jailer Did Not Maintain Complete Records For Phone Cards (Continued)

received 6,250 phone cards with a value of \$91,500 to sell through the jail commissary from July 1, 2013 through December 31, 2014. According to the current jailer, no unsold phone cards were found when he took office on January 1, 2015; therefore, \$91,500 should have been deposited into the jail commissary bank account during the time period noted.

A review of bank statements documents that \$76,647 in deposits were identified as phone card commissions. Subsequent to audit fieldwork, the former jailer met with auditors. He told the auditors phone cards were sold two different ways: 1. Out of the kiosk machine in the lobby, and 2. Deducted from inmate accounts. The deposits noted here represent the ones sold out of the kiosk. Auditors could not verify phone cards sold through inmate accounts with the information they were provided during the audit fieldwork.

Subsequent to audit fieldwork, the former jailer provided a detailed report for phone card transactions from the accounting system for phone cards sold through inmate accounts. The report contained voided transactions and at least one phone card listed twice for two different inmates. These issues are consistent with the accounting system issues noted in finding 2015-003. Approximately \$10,760 in phone cards could be accounted for in this report, leaving approximately \$4,093 in phone card sales undocumented. The former jailer told auditors he gave away phone cards to inmates before leaving office and returned some phone cards to the vendor. No records were maintained for these actions and could not be verified. Further, in December 2014, the jailer wrote checks in arbitrary amounts from the commissary account totaling \$58,140 identified as phone card commissions to the Meade County Treasurer.

The absence of complete, accurate recordkeeping for phone cards left the cash collected for phone cards as well as the cards themselves susceptible to theft and/or misuse. The jail commissary account is short by phone card commissions incorrectly paid to the treasurer of \$58,140 and \$4,093 for phone cards either not sold or not documented.

Good internal controls dictate accurate accounting and documentation of sales and deposits as sales occur. Inventory that can be easily lost or stolen, such as phone cards, should always be secured and have sufficient controls in place to track sales and use. Because phone cards are purchased by inmates from the commissary, the profit from the sale of these cards should remain in the commissary account. According to KRS 441.135, all profits from the commissary shall be used for the benefit and to enhance the wellbeing of the prisoners.

The former jailer should have ensured that all phone card transactions were recorded and maintained an accurate accounting of phone card sales. Controls should have been in place to ensure phone cards and receipts were not susceptible to theft or loss. The profit earned from the sale of phone cards to inmates should have remained in the commissary bank account. We recommend the fiscal court reimburse the commissary account \$58,140. We further recommend the former jailer work with the fiscal court and county attorney to determine how they want to address the amount for phone cards he says he gave away to inmates and returned to the vendor.

*County Judge/Executive's Response: Meade County Fiscal Court has attached paid receipts totaling \$63,452.78 to reimburse the commissary account in the amount of \$58,140.00.*

Auditor's Reply to County Judge/Executive's Response: We recommend the county judge/executive consult the county attorney as to the appropriateness of providing paid receipts instead of a transfer of cash to satisfy the debt.

**MEADE COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2015  
(Continued)**

**FINANCIAL STATEMENT FINDINGS: (CONTINUED)**

**2015-004 The Former Jailer Did Not Maintain Complete Records For Phone Cards (Continued)**

---

*Former Jailer's Response: During the transition and for the benefit of the inmates, free phone cards totaling \$20.00 per inmate were given out during the month of December. Based upon the average population count of 139 in December, a minimum of 139 phone cards totaling \$2,780.00 were given free to inmates. Also the canteen administrators' records show that 115 phone cards were never sold to inmates or used and were returned to the phone vendor. The amount of the phone cards never used and returned to the vendor was \$1430.00. The combined total of free cards given to inmates and cards that were never used and returned to the vendor was \$4,210.00. The auditor's office was provided with an inmate statement verifying that free cards were given to inmates as well as the numbers of all 115 cards that were never sold and returned. Excluded from this auditor's report are the facts that per the phone contract, the jail was provided with over 2,000 free phone cards from the vendor and that jail phone cards have no cash value and cannot be used by anyone other than inmates at the jail. Other than the free cards given to inmates and those which were returned, all funds for phone cards that were actually sold either through the lobby or internally through the jail have been accounted for. Furthermore, in December 2014 an auditor from the state auditor's office was consulted and advised prior to the transfer of funds identified as phone card commissions from the commissary to the jail fund. In preparation of the next audit he had us document this on an exit conference form which he signed.*

Auditor's Reply to Former Jailer's Response: Sufficient supporting documentation should be developed at the time of the transaction and maintained with the accounting records. A single inmate's signed statement obtained over 18 months after the occurrence cannot be considered sufficient evidence to account for 139 missing phone cards. Further, auditors were not able to verify with the vendor that any phone cards were returned to them. When a detention center receives free phone cards, it simply means the detention center did not have to pay for them. Those cards should have been documented as either sold (and the funds properly accounted for) or as given to inmates free of charge. While phone cards have no cash value outside the detention center, it is the jailer's responsibility to ensure sufficient controls are in place over all inventory items to protect the inventory from loss or fraud. The overall lack of accurate, consistent accounting records, as described in comment #2015-003, contributed to the issues noted in this comment.

**2015-005 The Former Jailer Made Purchases From The Commissary Account That Did Not Comply With State Law**

---

We tested a sample of 32 jail commissary disbursements and found \$5,063 in disbursements that do not meet the criteria for jail commissary profit spending. The purchases included a commercial slicer, various office supplies, desk organizers, a metal security cabinet, and hand sanitizer dispensers that would be deemed regular jail fund disbursements. Since these items were for administration of the detention center and not to benefit prisoners, they should have been purchase through the jail fund of the county. A purchase order should have been provided by the county judge/executive's office and included on the claims list for presentation to the fiscal court. The jailer circumvented the internal controls of the county by purchasing these items through the jail commissary and used commissary profit for other than its intended purpose. Further, the former jailer paid \$78 in sales tax on those purchases examined. Since government agencies are not subject to sales tax, this was an unnecessary waste of commissary profit.

The failure of the former jailer to spend commissary profit to benefit and enhance the well-being of prisoners caused the detention center to be out of compliance with state law and wasteful spending of commissary profit on sales tax. According to KRS 441.135(2), "[a]ll profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners." KRS 441.135(3), "[a]ll allowable expenditures from a canteen account shall include but not be limited to recreational, vocational, and medical purposes."

**MEADE COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**FINANCIAL STATEMENT FINDINGS: (CONTINUED)**

2015-005 The Former Jailer Made Purchases From The Commissary Account That Did Not Comply With State Law (Continued)

---

The former jailer should have ensured all disbursements from jail commissary profits were for the benefit of the prisoners and were in compliance with KRS 441.135(2). The former jailer should have complied with the county's purchasing procedures for the disbursements noted. We recommend \$5,063 be reimbursed by the jail fund to the jail commissary account.

*County Judge/Executive's Response: Meade County Fiscal Court has attached paid receipts totaling \$63,452.78 to reimburse the commissary account in the amount of \$5,063.00.*

Auditor's Reply to County Judge/Executive's Response: We recommend the county judge/executive consult the county attorney as to the appropriateness of providing paid receipts instead of a transfer of cash to satisfy the debt.

*Former Jailer's Response: KRS 441.135 is and has been interpreted differently by each auditor. One year an auditor may approve an item purchased out of commissary funds, and next year a different auditor may disapprove the same item. For example, under the same statute, office supplies for the operation of the canteen have always been approved by the auditor and in this audit they were not approved. Rubber bands, file folders, post it notes, toner cartridges, a hole punch, ink for calculator, etc., have been approved for the canteen in the past but were not allowed during this audit. Since a jail canteen is not required and was created for the benefit of the inmates, all office supplies for the management and operation of it should be allowed. Hand sanitizer dispensers and individual laundry bags are not required by jail standards but were purchased for the benefit of the inmates, and yet they were not approved. The only item that may not have fit the criteria for commissary spending was the slicer, however it was purchased for the safety and benefit of the state inmates who worked in the kitchen and who received work credit. The bottom line is everything that was purchased was for the jail; there was just a difference of interpretation on whether it should have been purchased from the commissary fund or the jail fund. A lot is open to interpretation when a statute reads that "all profits from the canteen shall be used for the benefit and to enhance the wellbeing of prisoners," and "allowable expenditures from a canteen account shall include but not be limited to recreational, vocational, and medical purposes". Under the same statute, one jail may be approved by an auditor to purchase certain items through the commissary account and the next jail may be written up by another auditor for purchasing the same exact things. Enforcing the statute evenly and consistently would be a great help to all the jailers across the state.*

Auditor's Reply to Former Jailer's Response: KRS 441.135 requires that profit from the canteen be used "for the benefit and to enhance the well-being of prisoners." When a statute does not indicate exactly what purchases would meet this criteria, auditors must determine whether the jailer is in compliance with the intent of the statute. The items listed in the comment do not appear to meet the criteria. Further, purchases made in previous years were not "approved" by the auditor. An audit consists of testing a sample of transactions not every transaction. A transaction not tested in a past audit does not indicate approval of the disbursement.

*Current Jailer's Response: As current jailer, if there is any questions regarding what can be purchased from the commissary account, I will consult with the county attorney and the auditor's office.*

**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**FINANCIAL STATEMENT FINDINGS: (CONTINUED)**

2015-006 The Meade County Detention Center Did Not Charge Or Collect Sales Tax On Prepaid Phone Cards Sold To Inmates

---

During fiscal year 2015, the Meade County Detention Center did not charge or collect sales tax on prepaid phone cards sold to inmates through the commissary. Since these phone cards are subject to Kentucky's 6% sales tax as levied in KRS 139.200(2)(d), the jailer should have collected the tax and remitted taxes collected to the Kentucky State Treasury.

Based on available records, the former jailer had \$91,000 in prepaid phone cards to sell. Tax calculated on this amount is \$5,460. The current jailer had \$24,195 in phone card sales. Tax calculated on this amount is \$1,452.

The current jailer thought the phone card vendor was charging and collecting sales tax when he purchased the cards from them. This misunderstanding of the policy caused the detention center to be out of compliance with state sales tax laws and could result in penalties and interest accruing on unpaid tax. KRS 139.200 documents the imposition of Kentucky state sales tax on goods including prepaid phone cards.

The Meade County Detention Center owes at least \$6,912 in sales tax on prepaid phone cards to the Kentucky state treasury. We recommend the jailer contact the Division of Sales and Use Tax at the Department of Revenue for guidance on the appropriate method of collecting and remitting the tax and to determine the amount owed for previously sold phone cards, plus any penalties and interest, if applicable.

*County Judge/Executive's Response: No response provided.*

*Current Jailer's Response: Upon taking office in January 2015 and opening the commissary I sent a list of all items to be sold to the Department of Revenue for review of what items are taxable. Since the phone cards were not marked taxable I did not collect sales tax. We are now collecting sales tax on all phone cards, and working with the Department of Revenue to determine the amount of taxes owed to the state from the past administration for uncollected sales tax.*

*Former Jailer's Response: No response provided.*

2015-007 The Meade County Detention Center Lacks Adequate Segregation Of Duties In Commissary Receipts And Inventory

---

The Meade County Detention Center has not adequately segregated duties in two areas, receipts and inventory, as discussed below.

Receipts

The jailer has assigned one person to receive money, prepare the deposit, post payments to inmate accounts, prepare daily checkout sheets, reconcile the bank account, and prepare necessary reports without sufficient review or oversight by a second person.

Inventory

The detention center administers a jail commissary with an in-house stock of inventory. The inventory duties, including maintaining and securing inventory and re-ordering supplies, are assigned to one individual. The individual performs periodic inventory counts to ensure computerized records are accurate. There is no one assigned to oversee and review this activity and periodically confirm inventory levels.

**MEADE COUNTY  
COMMENTS AND RECOMMENDATIONS  
Fiscal Year Ended June 30, 2015  
(Continued)**

**FINANCIAL STATEMENT FINDINGS: (CONTINUED)**

2015-007 The Meade County Detention Center Lacks Adequate Segregation Of Duties In Commissary Receipts And Inventory (Continued)

---

The jailer has not developed sufficient policies and procedures to address internal control weaknesses in receipts and inventory. The lack of sufficient segregation of duties or strong oversight has increased the risk of fraud or error in these areas.

Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. Segregation of duties is also essential in the custody and administration of inventory on hand. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties.

Without proper segregation or strong compensating controls, the jailer cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system or that there are not errors or fraud in inventory totals.

We recommend the jailer strengthen internal controls by segregating the duties involved in receiving, recording, reconciling and reporting receipts. If segregation is not possible, we recommend compensating controls, such as a receipt listing prepared by another person to compare to deposit tickets and ledger posting and/or documentation of strong oversight and review by a second person. Duties in the administration of the commissary inventory, such as documenting inventory counts, re-ordering stock and adjusting inventory totals in the accounting system should be segregated from actual custody and maintenance of inventory. If segregation is not possible, the jailer should implement strong oversight, including review and approval of stock re-orders and periodic surprise inventory counts. The jailer should further review any adjustments to inventory totals in the accounting system and limit these to rare occurrences.

*County Judge/Executive's Response: No response provided.*

*Current Jailer's Response: Since February of 2015 each employee is required to have the ability to process monies brought into the jail. Each employee is given their own password for the computer and all transactions are recorded on video. I will continue to provide a strong oversight, and continue to check all daily transactions. I have assigned another employee to assist the commissary with maintaining and reordering stock. I will also assign different employees to inventory the commissary inventory.*

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

**MEADE COUNTY FISCAL COURT**

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

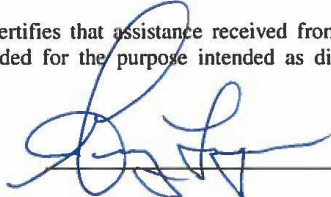




CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
MEADE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

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

A handwritten signature in blue ink, appearing to be "D. L. ...", written over a horizontal line.

County Judge/Executive

A handwritten signature in blue ink, appearing to be "Tammy Welch", written over a horizontal line.

County Treasurer

