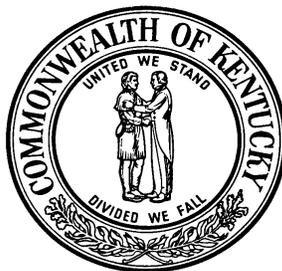


**REPORT OF THE AUDIT OF THE
GRANT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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FRANKFORT, KY 40601-1817
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GRANT COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Grant County Fiscal Court for fiscal year ended June 30, 2014. As a result of this engagement, we have issued a modified opinion on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Grant County, Kentucky.

Financial Condition:

The Grant County Fiscal Court had total receipts of \$10,598,881 and disbursements of \$12,012,475 in fiscal year 2014. This resulted in a total ending fund balance of \$2,539,782, which is decrease of \$1,413,594 from the prior year.

Report Comments:

- 2014-001 The Grant County Detention Center Should Improve Controls Over Collections For The Jail Commissary And Inmate Trust Funds
- 2014-002 The Grant County Detention Center Should Improve Controls Over Disbursements For The Jail Commissary And Inmate Trust Funds
- 2014-003 The Jailer Should Acquire Fiscal Court Approval For All Contracts, Turn Over All Commissions To The Treasurer, And Obtain Fiscal Court Approval For All Disbursements
- 2014-004 The Grant County Detention Center Did Not Deposit \$56,612 Of Abandoned Inmate Monies And \$31,640 Of Commissary Profits Into The Jail Commissary Account
- 2014-005 The Grant County Detention Center Should Immediately Comply With Applicable Laws And Regulations
- 2014-006 The Grant County Detention Center Should Submit An Annual Commissary Report To The County
- 2014-007 The County Should Bid All Disbursements Over \$20,000 And Ensure All Contracts Are Approved By Fiscal Court

Deposits:

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

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Stephen Wood, Grant County Judge/Executive
Honorable Darrell L. Link, Former Grant County Judge/Executive
Members of the Grant 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 Grant County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

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. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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



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

As described in more fully in Note 1, the financial statement is prepared by Grant County, Kentucky 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 Grant County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Basis for Qualified Opinion

Grant County's Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis, includes the receipts and disbursements of the Jail Commissary Fund, over which there was no system of internal controls on which we could rely for the purpose of our audit. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the recorded receipts and disbursements of the Jail Commissary Fund were free from material misstatements.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the fund balances of Grant County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government as described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Grant County, Kentucky. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and the capital asset schedule have 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.

To the People of Kentucky
 Honorable Steven L. Beshear, Governor
 Lori H. Flanery, Secretary
 Finance and Administration Cabinet
 Honorable Stephen Wood, Grant County Judge/Executive
 Honorable Darrell L. Link, Former Grant County Judge/Executive
 Members of the Grant County Fiscal Court

Other Matters (Continued)

In our opinion, the budgetary comparison schedules and the capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 27, 2015 on our consideration of Grant County, Kentucky'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 and should be considered in assessing the results of our audit.

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

- 2014-001 The Grant County Detention Center Should Improve Controls Over Collections For The Jail Commissary And Inmate Trust Funds
- 2014-002 The Grant County Detention Center Should Improve Controls Over Disbursements For The Jail Commissary And Inmate Trust Funds
- 2014-003 The Jailer Should Acquire Fiscal Court Approval For All Contracts, Turn Over All Commissions To The Treasurer, And Obtain Fiscal Court Approval For All Disbursements
- 2014-004 The Grant County Detention Center Did Not Deposit \$56,612 Of Abandoned Inmate Monies And \$31,640 Of Commissary Profits Into The Jail Commissary Account
- 2014-005 The Grant County Detention Center Should Immediately Comply With Applicable Laws And Regulations
- 2014-006 The Grant County Detention Center Should Submit An Annual Commissary Report To The County
- 2014-007 The County Should Bid All Disbursements Over \$20,000 And Ensure All Contracts Are Approved By Fiscal Court

Respectfully submitted,



Adam H. Edelen
 Auditor of Public Accounts

May 27, 2015

GRANT COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Darrell L. Link	County Judge/Executive
Richard Austin	Magistrate
Wanda Hammons	Magistrate
Bobby Young	Magistrate

Other Elected Officials:

Joe Taylor	County Attorney
Terry Peeples	Jailer
Layne Wagoner	County Clerk
Tina Melton	Circuit Court Clerk
C.E. Dills, II	Sheriff
Angela McLafferty	Property Valuation Administrator
Robert McDaniel	Coroner

Appointed Personnel:

Peggy Updike	County Treasurer
Evaline Davis	Finance Director
Patricia Conrad	Finance Administrator
Connie McClure-Ellington	County Finance Officer
Steve Tatum	Road Supervisor
Becky Clise	Jail Administrator/Assistant Bookkeeper

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

For The Year Ended June 30, 2014

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

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 2,151,149	\$	\$
Excess Fees	107,716		
Licenses and Permits	79,711		
Intergovernmental	1,394,769	1,625,637	3,273,298
Charges for Services	92,141		60,265
Miscellaneous	339,044	23,971	170,414
Interest	13,182	1,294	814
Total Receipts	<u>4,177,712</u>	<u>1,650,902</u>	<u>3,504,791</u>
DISBURSEMENTS			
General Government	2,186,346		
Protection to Persons and Property	162,910		2,569,419
General Health and Sanitation	362,957		
Social Services	16,002		
Recreation and Culture	310,983		
Roads		2,134,953	
Debt Service	138,568		485,225
Administration	1,052,506	160,913	697,997
Total Disbursements	<u>4,230,272</u>	<u>2,295,866</u>	<u>3,752,641</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(52,560)</u>	<u>(644,964)</u>	<u>(247,850)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			345,000
Transfers To Other Funds	(345,000)		
Total Other Adjustments to Cash (Uses)	<u>(345,000)</u>		<u>345,000</u>
Net Change in Fund Balance	(397,560)	(644,964)	97,150
Fund Balance - Beginning	2,613,482	668,916	7,810
Fund Balance - Ending	<u>\$ 2,215,922</u>	<u>\$ 23,952</u>	<u>\$ 104,960</u>
Composition of Fund Balance			
Bank Balance	\$ 826,675	\$ 23,952	\$ 104,960
Less: Outstanding Checks	(20,753)		
Investments	1,410,000		
Fund Balance - Ending	<u>\$ 2,215,922</u>	<u>\$ 23,952</u>	<u>\$ 104,960</u>

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

GRANT COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Budgeted Funds		Unbudgeted Funds			Total Funds
Local Government Economic Assistance Fund	Forest Fund	Public Properties Corporation Fund	Public Facilities Construction Corporation Fund	Jail Commissary Fund	
\$	\$ 1,938	\$	\$	\$	\$ 2,153,087
					107,716
					79,711
36,718		277,536	818,421		7,426,379
					152,406
				130,223	663,652
636	4				15,930
<u>37,354</u>	<u>1,942</u>	<u>277,536</u>	<u>818,421</u>	<u>130,223</u>	<u>10,598,881</u>
					2,186,346
	1,721				2,734,050
63,341					426,298
					16,002
				153,601	464,584
					2,134,953
		277,558	1,237,475		2,138,826
					1,911,416
<u>63,341</u>	<u>1,721</u>	<u>277,558</u>	<u>1,237,475</u>	<u>153,601</u>	<u>12,012,475</u>
(25,987)	221	(22)	(419,054)	(23,378)	(1,413,594)
					345,000
					(345,000)
(25,987)	221	(22)	(419,054)	(23,378)	(1,413,594)
196,648	660	101	419,054	46,705	3,953,376
<u>\$ 170,661</u>	<u>\$ 881</u>	<u>\$ 79</u>	<u>\$ 0</u>	<u>\$ 23,327</u>	<u>\$ 2,539,782</u>
\$ 170,661	\$ 881	\$ 79	\$	\$ 23,410	\$ 1,150,618
				(83)	(20,836)
					1,410,000
<u>\$ 170,661</u>	<u>\$ 881</u>	<u>\$ 79</u>	<u>\$ 0</u>	<u>\$ 23,327</u>	<u>\$ 2,539,782</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

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GRANT COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Grant County includes all budgeted and unbudgeted funds under the control of the Grant 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 that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses 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.

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Forest Fund - The primary purpose of this fund is to account for fire acre taxes collected in case of a major forest fire disaster. The primary source of receipts for this fund is taxes collected by the Sheriff's office.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The purpose of this fund is to account for debt service requirements of the general obligation refunding bonds, Series 2010 and Series 2010B. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Public Facilities Construction Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

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 disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

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

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

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The State Local Finance Officer does not require the Public Facilities Construction Corporation Fund or the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Grant County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Grant 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 Grant County, Kentucky.

- 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.

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(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(4), 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 41.240(4). As of June 30, 2014, 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 2014.

	General Fund	Total Transfers In
Jail Fund	<u>\$ 345,000</u>	<u>\$ 345,000</u>
Total Transfers Out	<u>\$ 345,000</u>	<u>\$ 345,000</u>

Reason for transfers:

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

Note 4. Trust Funds

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

The fiscal court has the following agency trust funds:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The bank balance in the Jail Inmate Fund as of June 30, 2014 was \$187,375.

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt

A. General Obligation Refunding Bonds, Series 2010

Grant County issued \$1,020,000 in General Obligation Refunding Bonds, Series 2010, dated May 2010, for the purpose of refunding and retiring the County's lease agreements with the Kentucky Association of Counties Leasing Trust (KACoLT). Principal payments are due each year on February 1, in amounts indicated below starting February 1, 2011. Interest at rates ranging from 1.00% to 3.30% on the bonds is payable each February 1 and August 1, beginning August 1, 2010.

The principal balance outstanding as of June 30, 2014 was \$545,000. Future debt service requirements are:

Fiscal Year Ended June 30, 2014	Principal	Scheduled Interest
2015	\$ 120,000	\$ 16,168
2016	135,000	13,288
2017	95,000	7,813
2018	95,000	6,388
2019	100,000	3,300
Totals	<u>\$ 545,000</u>	<u>\$ 46,957</u>

The retired lease agreements discussed above were subsequently sub-leased to the applicable water district (see below, Section E). The districts make monthly payments to the County for the debt service requirements in accordance with the sub-lease agreements. The bonds are general obligations of the County and the full faith, credit and taxing power of the County is irrevocably pledged to the payment of principal and interest on the bonds when due.

B. General Obligation Refunding Bonds, Series 2010B

Grant County issues \$5,475,000 General Obligation Refunding Bonds, Series 2010B, dated September 2010, for the purpose of refunding and retiring the County's First Mortgage Revenue Bonds (Detention, Facilities Project), Series 1998 and First Mortgage Revenue Bonds, Series 2005. Principal payments are due each year on July 1, in amounts indicated below, starting January 1, 2011. Interest at rates ranging from .40% to 2.70% on the bonds is payable each January 1 and July 1, beginning January 1, 2011.

The current refunding reduces total debt service payments over the next 14 years by approximately \$543,000. This results in an economic gain, (the difference between the present values of the debt service payments on the old and new debt), of approximately \$491,000.

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

B. General Obligation Refunding Bonds, Series 2010B (Continued)

The principal balance outstanding as of June 30, 2014 was \$4,305,000. Future debt service requirements are:

Fiscal Year Ended June 30, 2014	Principal	Interest
2015	\$ 390,000	\$ 92,885
2016	400,000	87,445
2017	405,000	80,295
2018	415,000	71,888
2019	420,000	62,700
2020-2024	<u>2,275,000</u>	<u>150,920</u>
Totals	<u>\$ 4,305,000</u>	<u>\$ 546,133</u>

The bonds are general obligations of the County and the full faith, credit and taxing power of the County is irrevocably pledged to the payment of principal and interest on the bonds when due.

C. First Mortgage Revenue Bonds, Series 2007

The Grant County Public Properties Corporation issued \$16,615,000 First Mortgage Revenue Bonds dated December 1, 2007 for the construction of the Grant County Judicial Center. Principal payments are due each year on December 1 in the amounts indicated below, starting December 1, 2008. Interest at rates ranging from 4.00% to 4.50% on the bonds is payable each June 1 and December 1, beginning June 1, 2008. The Grant County Public Properties Corporation, Grant County Fiscal Court and the Administrative Office of the Courts (AOC) entered into a lease agreement dated December 1, 2007, wherein AOC shall lease from the Corporation the new judicial center at an agreed rent which is anticipated to be adequate to pay no less than 100% of the principal and interest on the bonds.

The principal balance outstanding as of June 30, 2014 was \$12,965,000. Future debt service requirements are:

Fiscal Year Ended June 30, 2014	Principal	Scheduled Interest
2015	\$ 700,000	\$ 538,075
2016	725,000	509,575
2017	755,000	479,975
2018	790,000	449,075
2019	820,000	416,875
2020-2024	4,650,000	1,535,950
2025-2028	<u>4,525,000</u>	<u>418,838</u>
Totals	<u>\$ 12,965,000</u>	<u>\$ 4,348,363</u>

The bonds are secured by a foreclosable first mortgage lien on the project and by the assignment by the Corporation of all the Corporation's right, title, and interest in the lease with AOC.

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

D. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Refunding Bonds	\$ 5,360,000	\$	\$ 510,000	\$ 4,850,000	\$ 510,000
Revenue Bonds	13,635,000		670,000	12,965,000	700,000
Total Long-term Debt	<u>\$ 18,995,000</u>	<u>\$</u>	<u>\$ 1,180,000</u>	<u>\$17,815,000</u>	<u>\$ 1,210,000</u>

E. Changes in Notes Receivable (Waterlines)

Notes receivable activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Districts	\$ 665,000	\$	\$ 120,000	\$545,000	\$ 120,000
Total Receivable (Waterlines)	<u>\$ 665,000</u>	<u>\$</u>	<u>\$ 120,000</u>	<u>\$545,000</u>	<u>\$ 120,000</u>

Note 6. Commitments and Contingencies

Grant County Fiscal Court is currently involved in six (6) lawsuits:

- Three former employees allege hostile work environment, sexual harassment and wrongful termination (including whistleblower claims) against the County and former Jailer. There is also one allegation of an Intentional Tort of rape.
- Two former employees allege hostile work environment, sexual harassment and wrongful termination (including whistleblower claims) against the County and former Jailer.
- An estate of a former inmate (now deceased) alleges violation of Fourteenth Amendment rights by depriving him of adequate medical care causing his death while incarcerated against the County, former Jailer, Grant County Detention Center, etc.
- A former employee alleges wrongful termination, hostile work environment and retaliation against the County, former Jailer, current Jailer, current County Judge/Executive, etc.
- A former employee alleges hostile work environment, sexual harassment, retaliation and wrongful termination (including a whistleblower claim) against the Jailer.
- A detainee at the jail alleges excessive force, assault, intentional infliction of emotional distress, negligent supervision, inadequate training, malfeasance, loss of consortium, spoliation of evidence and breach of medical standard of care, and conduct to prejudice of good order and discipline against the County, Grant County Detention Center, former Jailer, etc.

The County's insurance coverage is limited to \$50,000 in back wages. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the County cannot be made.

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 7. Employee Retirement System

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

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$622,316, FY 2013 was \$691,400, and FY 2014 was \$639,492.

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 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

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

CERS also provides post retirement health care coverage as follows:

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

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

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

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 7. Employee Retirement System (Continued)

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

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

Note 8. Deferred Compensation

On February 4, 2000, the Grant 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 9. Insurance

For the fiscal year ended June 30, 2014, Grant 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.

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GRANT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

GRANT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,131,253	\$ 2,131,253	\$ 2,151,149	\$ 19,896
Excess Fees	5,451	5,451	107,716	102,265
Licenses and Permits	71,500	71,500	79,711	8,211
Intergovernmental	1,672,917	1,672,917	1,394,769	(278,148)
Charges for Services	69,500	69,500	92,141	22,641
Miscellaneous	277,750	277,750	339,044	61,294
Interest	24,000	24,000	13,182	(10,818)
Total Receipts	<u>4,252,371</u>	<u>4,252,371</u>	<u>4,177,712</u>	<u>(74,659)</u>
DISBURSEMENTS				
General Government	2,173,416	2,254,631	2,186,346	68,285
Protection to Persons and Property	474,150	465,550	162,910	302,640
General Health and Sanitation	400,774	409,938	362,957	46,981
Social Services	53,732	27,025	16,002	11,023
Recreation and Culture	279,296	318,685	310,983	7,702
Debt Service	138,768	138,768	138,568	200
Administration	1,312,047	1,217,586	1,052,506	165,080
Total Disbursements	<u>4,832,183</u>	<u>4,832,183</u>	<u>4,230,272</u>	<u>601,911</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(579,812)</u>	<u>(579,812)</u>	<u>(52,560)</u>	<u>527,252</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(456,160)</u>	<u>(456,160)</u>	<u>(345,000)</u>	<u>111,160</u>
Total Other Adjustments to Cash (Uses)	<u>(456,160)</u>	<u>(456,160)</u>	<u>(345,000)</u>	<u>111,160</u>
Net Change in Fund Balance	(1,035,972)	(1,035,972)	(397,560)	638,412
Fund Balance Beginning	<u>1,035,972</u>	<u>1,035,972</u>	<u>2,613,482</u>	<u>1,577,510</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,215,922</u>	<u>\$ 2,215,922</u>

GRANT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,023,551	\$ 2,312,351	\$ 1,625,637	\$ (686,714)
Miscellaneous	4,275	4,275	23,971	19,696
Interest	2,000	2,000	1,294	(706)
Total Receipts	<u>2,029,826</u>	<u>2,318,626</u>	<u>1,650,902</u>	<u>(667,724)</u>
DISBURSEMENTS				
Roads	1,838,875	2,146,691	2,134,953	11,738
Administration	190,951	171,935	160,913	11,022
Total Disbursements	<u>2,029,826</u>	<u>2,318,626</u>	<u>2,295,866</u>	<u>22,760</u>
Net Change in Fund Balance			(644,964)	(644,964)
Fund Balance Beginning			<u>668,916</u>	<u>668,916</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,952</u>	<u>\$ 23,952</u>

GRANT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 3,581,567	\$ 3,581,567	\$ 3,273,298	\$ (308,269)
Charges for Services	70,500	70,500	60,265	(10,235)
Interest Earned	750	750	814	64
Miscellaneous	117,000	117,000	170,414	53,414
Total Receipts	<u>3,769,817</u>	<u>3,769,817</u>	<u>3,504,791</u>	<u>(265,026)</u>
DISBURSEMENTS				
Protection to Persons and Property	2,934,686	2,952,270	2,569,419	382,851
Administration	806,066	788,482	697,997	90,485
Debt Services	485,225	485,225	485,225	
Total Disbursements	<u>4,225,977</u>	<u>4,225,977</u>	<u>3,752,641</u>	<u>473,336</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(456,160)</u>	<u>(456,160)</u>	<u>(247,850)</u>	<u>208,310</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	456,160	456,160	345,000	(111,160)
Total Other Adjustments to Cash (Uses)	<u>456,160</u>	<u>456,160</u>	<u>345,000</u>	<u>(111,160)</u>
Net Change in Fund Balance			97,150	97,150
Fund Balance Beginning			<u>7,810</u>	<u>7,810</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 104,960</u>	<u>\$ 104,960</u>

GRANT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 63,000	\$ 63,000	\$ 36,718	\$ (26,282)
Interest	500	500	636	136
Total Receipts	<u>63,500</u>	<u>63,500</u>	<u>37,354</u>	<u>(26,146)</u>
DISBURSEMENTS				
Road Facilities	63,500	63,500	63,341	159
Total Disbursements	<u>63,500</u>	<u>63,500</u>	<u>63,341</u>	<u>159</u>
Net Change in Fund Balance			(25,987)	(25,987)
Fund Balance Beginning			<u>196,648</u>	<u>196,648</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 170,661</u>	<u>\$ 170,661</u>

GRANT COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

FOREST FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,722	\$ 1,722	\$ 1,938	\$ 216
Charges For Services	50	50		(50)
Interest	10	10	4	(6)
Total Receipts	<u>1,782</u>	<u>1,782</u>	<u>1,942</u>	<u>160</u>
DISBURSEMENTS				
Protection to Persons and Property	<u>1,782</u>	<u>1,782</u>	<u>1,721</u>	<u>61</u>
Total Disbursements	<u>1,782</u>	<u>1,782</u>	<u>1,721</u>	<u>61</u>
Net Change in Fund Balance			221	221
Fund Balance Beginning			<u>660</u>	<u>660</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 881</u>	<u>\$ 881</u>

GRANT COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

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.

GRANT COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

GRANT COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,023,172	\$ 50,000	\$	\$ 1,073,172
Buildings	22,453,135			22,453,135
Vehicles	1,627,380	213,271		1,840,651
Equipment	1,423,374	11,557	62,685	1,372,246
Infrastructure	1,207,518			1,207,518
Total Capital Assets	<u>\$ 27,734,579</u>	<u>\$ 274,828</u>	<u>\$ 62,685</u>	<u>\$27,946,722</u>

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

June 30, 2014

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)
Buildings and Building Improvements	\$ 25,000	10-75
Infrastructure	\$ 10,000	10-50
Machinery & Equipment	\$ 5,000	3-25
Intangibles	\$ 5,000	5-15

**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**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Stephen Wood, Grant County Judge/Executive
The Honorable Darrell L. Link, Former Grant County Judge/Executive
Members of the Grant 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 Grant County Fiscal Court for the fiscal year ended June 30, 2014 and the related notes to the financial statement and have issued our report thereon dated May 27, 2015, wherein we issued a modified opinion on the financial statement because internal controls over the Jail Commissary Fund did not exist. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-005, and 2014-006 to be material weaknesses.



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
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2014-004 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grant 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 2014-001, 2014-002, 2014-003, 2014-004, 2014-006, and 2014-007.

County Judges' and County Jailers' Responses to Findings

The Grant County Judges' and Grant County Jailers' responses to the findings identified in our audit are included in the accompanying comments and recommendations. The County Judges' and County Jailers' 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,



Adam H. Edelen
Auditor of Public Accounts

May 27, 2015

**GRANT COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

GRANT COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The Grant County Detention Center Should Improve Controls Over Collections For The Jail Commissary And Inmate Trust Funds

The Grant County Detention Center did not comply with the State Local Finance Officer Policy Manual. Due to (a) poorly designed policies and procedures, (b) inconsistent, incomplete, and inaccurate implementation of controls, (c) and lack of management oversight/involvement, we noted the following issues with receipts of jail fees and inmate monies:

- Deposits were not made daily. A total of \$53,121 of cash was found in a locked desk drawer; \$17,781 on November 20, 2014 and \$35,340 on December 12, 2014, with receipts dating from June 2011 to November 2014.
- Receipts were not issued in numerical sequence, were not batched daily, and were not being accounted for.
- Receipts were not maintained for all collections. Receipt books had missing receipts/pages.
- Daily Checkout Sheets were not prepared, not agreed to receipts, and not used to make daily deposits.
- A receipts journal for the jail commissary accounting for all receipts collected separated into appropriate categories was not maintained. Six months after year-end, journals were recreated based on bank statements rather than receipt books. Receipts were not recorded by source (i.e. work release, drug testing, etc).
- Bank reconciliations were not prepared for the Jail Commissary account or for the Inmate Trust Fund account.
- Auditors could not reconcile the Inmate Trust Fund account for year-end and could not determine actual outstanding checks for that account.
- Auditors reconciled the Jail Commissary account based on bank statements; however, without accurate ledgers, bank reconciliations, complete and accurate receipt books, or daily checkouts sheets, ending cash balance could not be reconciled to book balance and therefore is unreliable.

Based on the minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210, the jail should maintain daily checkout sheets and a jail commissary receipts journal. Daily deposits and daily checkout sheets are required. At the end of each business day, receipts should be separated into categories listed on the checkout. The total of each category should be entered in the appropriate space provided. The daily checkout total should equal the amount of money on hand at the end of each day, less startup cash. When total collections match the total cash on hand, receipts should be posted to the Jail Commissary account receipts journal and on a daily basis. The total amount category should agree with the deposited amount on the daily checkout sheet. KRS 68.210 also requires bank reconciliations be performed at least monthly. Financial institution bank statements should be reconciled to the respective book balances for all accounts to ensure bank funds are reflected accurately on the financial records of the Jailer.

The cumulative effect of the control weaknesses and the scope limitations due to lack of records increase the risk of material misstatement caused by error or fraud. This risk results in the need to alert management of the necessity to improve controls over the financial activities of the office. We will refer our audit of the Grant County Detention Center to the Office of the Attorney General for further investigation. We recommend the following:

- All collections should be deposited each day that the commissary is open.

**GRANT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-001 The Grant County Detention Center Should Improve Controls Over Collections For The Jail Commissary And Inmate Trust Funds (Continued)

- Prenumbered receipts in triplicate should be written and maintained for all collections at the jail.
- Receipts should be issued in numerical sequence and properly accounted for.
- Receipts should be batched daily and total collections for the day should be agreed to total receipts.
- Checkout sheets should be prepared daily and should agree to batched receipt tickets, bank deposits, and the receipts journal.
- All collections should be accounted for on the receipts journal.
- Bank reconciliations should be prepared for all accounts monthly.

Former County Judge/Executive Darrell Link's Response: No response.

County Judge/Executive Stephen Wood's Response: No response.

Former County Jailer Terry Peebles' Response: No response.

County Jailer Chris Hankins' Response: As of June 5, 2015, we are in compliance with all procedures recommended.

2014-002 The Grant County Detention Center Should Improve Controls Over Disbursements For The Jail Commissary And Inmate Trust Funds

The Grant County Detention Center (GCDC) did not comply with the State Local Finance Officer Policy Manual. Due to (a) poorly designed policies and procedures, (b) inconsistent, incomplete, and inaccurate implementation of controls, (c) and lack of management oversight/involvement, we noted the following issues with disbursements of jail fees and inmate monies:

- Out of our sample of forty disbursements, seven invoices, totaling \$152,628, were not paid timely, including invoices that were paid 8 months after their due date.
- Of that same sample, three had no supporting documentation.
- No sales tax was paid between July 1, 2013 and March 1, 2014. These taxes due were paid in December 2014. The late payments resulted in \$2,115 fines and penalties. The GCDC has been billed an additional \$1,015 for fines and penalties. The Jailer is attempting to get these fines waived.
- Disbursements to inmates for closeout did not have inmate or employee signatures.
- A disbursements journal accounting for the jail commissary disbursements was not maintained. Six months after year-end, journals were recreated based on bank statements rather than check registers.

Based on the minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210 and 64.840, the jail should maintain a jail commissary disbursements journal. Every check written must be posted to the proper category listed (i.e. inmate account refund, entertainment expenses, etc). KRS 65.140(2) states, unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice. All disbursements should be for allowable disbursements, be properly authorized, and be adequately documented. KRS 441.135 concludes that all profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners. Allowable disbursements from the commissary account shall include, but not be limited to recreational, vocational, and medical purposes.

**GRANT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-002 The Grant County Detention Center Should Improve Controls Over Disbursements For The Jail Commissary And Inmate Trust Funds (Continued)

The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud. This risk results in the need to alert management of the necessity to improve controls over the financial activities of the office. We recommend the following:

- All invoices should be paid within 30 days of receipt of invoice.
- Disbursements should be adequately documented and supported.
- Disbursements of the Jail Commissary should be for allowable expenditures, for the benefit and well-being of the inmates only.
- All disbursements should be properly authorized.
- All checks should be accounted for on the disbursements journal.

Former County Judge/Executive Darrell Link's Response: No response.

County Judge/Executive Stephen Wood's Response: No response.

Former County Jailer Terry Peebles' Response: No response.

County Jailer Chris Hankins' Response: New administration is in compliance with the disbursements.

2014-003 The Jailer Should Acquire Fiscal Court Approval For All Contracts, Turn Over All Commissions To The Treasurer, And Obtain Fiscal Court Approval For All Disbursements

In January 2011, the Grant County Jailer, without fiscal court approval, executed a telephone contract with a telephone service provider for the provision of telephone service for the inmates at the jail. The Jailer negotiated with the telephone service provider for the provider to purchase a new computer system and software program for the jail to use for the commissary fund. As an incentive for the jail to enter into the contract, the telephone service provider agreed to purchase the needed equipment upfront for the jailer, but included in the contract a provision that the service provider would deduct a monthly amount from the telephone commission checks for 48 months until the total equipment expense in excess of \$67,000 was paid for. The equipment purchased was not bid out and was not for the telephone system; rather it was accounting software to be used to account for the jail commissary receipts and disbursements.

By doing this, the Jailer is, in effect, expending county funds without them being budgeted and approved by fiscal court as a part of the jail fund. Jailers do not have authority to expend county funds from the jail fund without approval of fiscal court, per KRS 441.225.

We recommend that the Jailer acquire fiscal court approval of all contracts, turn over all commissions to the County Treasurer, and obtain Fiscal Court approval for all disbursements.

Former County Judge/Executive Darrell Link's Response: No response.

County Judge/Executive Stephen Wood's Response: No response.

Former County Jailer Terry Peebles' Response: No response.

County Jailer Chris Hankins' Response: Jailer is aware all contracts need to be approved by fiscal court.

**GRANT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-004 The Grant County Detention Center Did Not Deposit \$56,612 Of Abandoned Inmate Monies And \$31,640 Of Commissary Profits Into The Jail Commissary Account

The Grant County Detention Center (GCDC) did not deposit all funds belonging to the Jail Commissary account into that account:

- The Grant County Detention Center did not deposit \$56,612 of abandoned inmate monies into the Jail Commissary account as required by KRS 441.137. The GCDC maintains a separate account for the inmate trust fund. This fund accounts for funds received from the individuals residing in the Detention Center. The GCDC has not been able, since before 2011, to provide supporting documentation detailing which inmates that \$77,227 belonged to. On September 11, 2014, \$56,612 of the abandoned inmate monies was distributed to the fiscal court, who subsequently deposited the funds into the Jail Fund. The remaining \$20,615 was properly deposited into the Jail Commissary account.
- The Grant County Detention Center's commissary is operated by a third party who periodically sends them checks for profits earned. These checks should be deposited into the Jail Commissary account for the purposes set out by KRS 441.135. In May 2014, the third party commissary administrator mailed three profit checks made payable to the Grant County Fiscal Court, totaling \$31,640, to the office of the County Judge/Executive. Believing the money belonged to the fiscal court, the former County Judge/Executive deposited the money into the Jail Fund. Upon determination that the checks belonged to the Jail Commissary account, the former Jailer agreed, via email correspondence with the former County Judge Executive, for the County to keep the commissary profits belonging to the Jail Commissary account.

Per KRS 441.137, any monies in an inmate account or prisoner canteen account of a jail that are presumed abandoned (one year after the date the check is mailed or, if an attempt to call is made, the date of the phone call) shall be transferred into the Jail Commissary account and be available for the purposes set out in KRS 441.135. Further, all profit checks from commissary sales shall also be deposited into the Jail Commissary account.

Failure to deposit all abandoned inmate monies and commissary profits into the Jail Commissary account results in noncompliance of KRS 441.137. We recommend the Grant County Detention Center deposit all abandoned inmate monies and all commissary profits into the Jail Commissary account as required by KRS 441.137.

Former County Judge/Executive Darrell Link's Response: No response.

County Judge/Executive Stephen Wood's Response: No response.

Former County Jailer Terry Peebles' Response: No response.

County Jailer Chris Hankins' Response: We are aware of the abandoned money and where it is to be placed in one account.

**GRANT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-005 The Grant County Detention Center Should Immediately Comply With Applicable Laws And Regulations

Numerous weaknesses in the control environment of the Grant County Detention Center significantly increase the risk of fraud and misappropriation of funds, and decrease the assurance of accuracy of records provided. The noted weaknesses could affect the Jailer's ability to ensure that financial data is recorded, processed, and reported in an accurate and reliable manner. In addition, the instances noted where effective internal controls, software changes, and access were not implemented may impact the Jailer's ability to ensure that assets were sufficiently safeguarded.

Management has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of financial reporting. Internal control is a management process for keeping an entity on course in achieving its business objectives. This management control system should ensure resources are guarded against waste, loss, and misuse, reliable data is obtained, maintained and fairly disclosed. Agencies are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management systems. Agency accounting systems must contain internal controls which operate to prevent, detect, and correct errors and irregularities which may occur anywhere in the chain of events from transaction authorization to issuance of reports. Because the Grant County Detention Center has such significant internal control weaknesses, the Jailer should implement the following as soon as possible. The following recommendations are supplemented by additional recommendations presented throughout this report. The Jailer should:

- Implement internal controls over the financial accounting system that ensure an adequate internal control structure, including management oversight, provides reasonable assurance that assets are safeguarded, transactions are processed in accordance with applicable laws and regulations, transactions are recorded, reconciled, processed and summarized to permit the preparation of reliable financial data.
- Segregate duties so that no one person can both create and conceal fraudulent activity or commit a material error that would go undetected.
- Train employees to ensure that each employee understands both the activities and the accounting principles needed for their positions.
- Implement sufficient supervisory review of key functions and activities, and ensure managers clearly understand their roles in the supervisory process. All supervisory reviews should be evidenced in writing.

Former County Judge/Executive Darrell Link's Response: No response.

County Judge/Executive Stephen Wood's Response: No response.

Former County Jailer Terry Peebles' Response: No response.

County Jailer Chris Hankins' Response: We go over financials at the end of every month to make sure no discrepancies exist as well as our receipt books.

**GRANT COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)**

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-006 The Grant County Detention Center Should Submit An Annual Commissary Report To The County

The Grant County Detention Center did not prepare or submit a year-end commissary report to the County as required. Due to a lack of records and inadequate controls, a report was not prepared or submitted to the County. Pursuant to KRS 441.135(2), the Jailer is to prepare and submit an annual canteen report to the fiscal court. The year-to-date summary section should be compiled using totals from the receipts and disbursements journals. Failure to submit an annual report results in non-compliance of KRS 441.135(2). We recommend that the Jailer submit an annual commissary report reflecting all activity for each fiscal year ended.

Former County Judge/Executive Darrell Link's Response: No response.

County Judge/Executive Stephen Wood's Response: No response.

Former County Jailer Terry Peeples' Response: No response.

County Jailer Chris Hankins' Response: We will provide an annual commissary report.

2014-007 The County Should Bid All Disbursements Over \$20,000 And Ensure All Contracts Are Approved By Fiscal Court

The County did not bid all items over \$20,000. During fiscal year 2014, the County paid \$493,738 to the medical service provider for the Grant County Detention Center inmates without advertising for bids. The Grant County Jailer, without fiscal court approval, entered into and executed a medical contract with the medical service provider. By not ensuring that proper bidding procedures have been followed prior to authorization and payment of invoices exceeding \$20,000, the County was not in compliance with KRS 424.260.

KRS 424.260 states "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except for perishable meat, fish and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000), without first making newspaper advertisement for bids."

We recommend that the County ensure all purchases exceeding \$20,000 be made in compliance with KRS 424.260. A copy of the applicable contract should be kept on file in the Fiscal Court files and original bid documents should be maintained in bid files. We further recommend that the Jailer acquire fiscal court approval of all contracts.

Former County Judge/Executive Darrell Link's Response: I categorically concur with the auditors' findings and recommendations and advocate instantaneous execution without equivocation.

County Judge/Executive Stephen Wood's Response: I have directed that all contracts be presented to the Fiscal Court for approval and that in any incident where we have reason to believe disbursements to any vendor in a fiscal year will exceed \$20,000, those services or items will be submitted for public bidding.

Former County Jailer Terry Peeples' Response: No response.

County Jailer Chris Hankins' Response: As of May 27, 2015, we will be in compliance with all contracts that should be bid out and approved by fiscal court.

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

GRANT COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

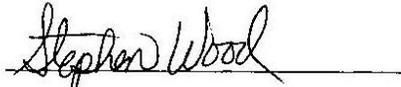
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

GRANT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

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

A handwritten signature in cursive script, appearing to read "Stephen Wood", written over a horizontal line.

County Judge/Executive

A handwritten signature in cursive script, appearing to read "Jessa Lipscomb", written over a horizontal line.

County Treasurer

