THREE FORKS REGIONAL JAIL AUTHORITY, INC.

Financial Statement Audit
As of and for the Year Ended
June 30, 2016

Prepared by:

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White & Associates, PSC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees of the Three Forks Regional Jail Authority
Fiscal Courts of Lee, Wolfe, and Owsley Counties
Three Forks Regional Jail Authority, Inc.
Beattyville, Kentucky

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of Three Forks Regional Jail Authority, Inc. (Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively compromise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2016, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Substance Abuse Program Fund for the year then ended in accordance with the modified cash basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2018, on our consideration of the Authority'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 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 Authority's internal control over financial reporting and compliance.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
May 25, 2018

Three Forks Regional Jail Authority, Inc.

Statement of Net Position - Modified Cash Basis

June 30, 2016

	Primary Government		
	Governmental Activities	**Business-type Activities**	**Total**
ASSETS			
Unrestricted cash and cash equivalents	$ 316,313	$ 39,272	$ 355,585
Restricted cash and cash equivalents	12,965		12,965
Certificates of deposit	364,986		364,986
Due from other funds	4,514	51,078	55,592
Capital assets:			
Land	42,108		42,108
Other capital assets, net of depreciation	3,207,297	32,904	3,240,201
Total capital assets	3,249,405	32,904	3,282,309
Total assets	3,948,183	123,254	4,071,437
LIABILITIES			
Unearned revenue	12,965	-	12,965
Long-term liabilities:			
Due within one year:			
Bond obligations	235,000		235,000
Total due within one year	235,000	-	235,000
Due in more than one year:			
Bond obligations	4,525,000		4,525,000
Total due in more than one year	4,525,000	-	4,525,000
Total liabilities	4,772,965	-	4,772,965
NET POSITION			
Net investment in capital assets (Deficit)	(1,510,595)	32,904	(1,477,691)
Restricted for:			
Debt service	364,986		364,986
Unrestricted	320,827	90,350	411,177
Total net position (Deficit)	$ (824,782)	$ 123,254	$ (701,528)

See the accompanying notes to the financial statements.

Three Forks Regional Jail Authority, Inc.
Statement of Activities - Modified Cash Basis
Year ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
PRIMARY GOVERNMENT:							
Governmental activities:							
Protection to persons and property	$ 1,917,345	$ 2,508,968	$ 84,679	$ -	$ 676,302		$ 676,302
General and administrative	354,316				(354,316)		(354,316)
Interest on long-term debt	153,751				(153,751)		(153,751)
Depreciation	159,738				(159,738)		(159,738)
Total governmental activities	2,585,150	2,508,968	84,679	-	8,497		8,497
Business-type activities:							
Enterprise operations	312,697	350,140	-	-		$ 37,442	37,442
Depreciation	5,952					(5,952)	(5,952)
Total business-type activities	318,650	350,140	-	-		31,490	31,490
Total primary government	$ 2,903,800	$ 2,859,108	$ 84,679	$ -	8,497	31,490	39,987
General revenues:							
Reimbursements					42,071	-	42,071
Commissions					400	39,268	39,668
Miscellaneous					3,041		3,041
Interest income					32	2	34
Total general revenues					45,544	39,270	84,814
Change in net position					54,041	70,761	124,802
Net position (Deficit) - beginning					(878,823)	52,493	(826,330)
Net position (Deficit) - ending					$ (824,782)	$ 123,254	$ (701,528)

See the accompanying notes to the financial statements.

Three Forks Regional Jail Authority, Inc.
Balance Sheet - Governmental Funds - Modified Cash Basis
June 30, 2016

	General Fund	Public Properties Corporation Fund	Substance Abuse Program Fund	Total Governmental Funds
Assets				
Unrestricted cash and cash equivalents	$ 316,313	$ -	$ -	$ 316,313
Restricted cash and cash equivalents			12,965	12,965
Certificates of deposit		364,986		364,986
Due from other fund	4,514			4,514
Total Assets	320,827	364,986	12,965	698,778
Liabilities				
Unearned Revenue	-	-	12,965	12,965
Total Liabilities	-	-	12,965	12,965
Fund Balance				
Restricted	-	364,986	-	364,986
Unassigned	320,827			320,827
Total Fund Balance	320,827	364,986	-	685,813
Total Liabilities and Fund Balance	$ 320,827	$ 364,986	$ 12,965	$ 698,778

See accompany notes to the financial statements.

Three Forks Regional Jail Authority, Inc.
Reconciliation of the Balance Sheet - Governmental Funds - Modified Cash Basis
to the Statement of Net Position - Modified Cash Basis
June 30, 2016

Total fund balance per fund financial statements	$	685,813
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		
Capital assets net of depreciation		3,249,405
Certain liabilities are not reported in this fund financial statement because they are not due or payable, but they are presented in the statement of net position.		
Bonds payable		(4,760,000)
Net position of governmental activities (Deficit)	$	(824,782)

See the accompanying notes to the financial statements.

Three Forks Regional Jail Authority, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds - Modified Cash Basis
Year ended June 30, 2016

	General Fund	Public Properties Corporation Fund	Substance Abuse Program Fund	Total Governmental Funds
Revenues				
Charges for services	$ 2,508,968	$ -	$ -	$ 2,508,968
Commissions	400			400
Reimbursements	42,071			42,071
Miscellaneous	3,041			3,041
Interest income	28		1	29
Intergovernmental-state			54,679	54,679
Intergovernmental-federal	30,000			30,000
Total revenues	2,584,508	-	54,680	2,639,188
Expenditures				
Protection to persons and property:				
Salaries and benefits	1,218,474	-	32,112	1,250,586
Operations	587,200			587,200
Maintenance	51,758			51,758
Equipment	24,820			24,820
Program			22,568	22,568
Total protection to persons and property	1,882,252	-	54,680	1,936,932
Debt service	-	388,751	-	388,751
General and administrative:				
General services	170,508	-	-	170,508
Salaries and benefits	183,808			183,808
Total general and administrative	354,316	-	-	354,316
Total expenditures	2,236,568	388,751	54,680	2,679,999
Excess (deficit) of revenues Over expenditures	347,940	(388,751)	-	(40,811)
Other financing sources (uses)				
Transfers (to) from	(386,549)	386,549	-	-
Interest income		3		3
Total other financing sources and (uses)	(386,549)	386,552	-	3
Net change in fund balance	(38,609)	(2,199)	-	(40,808)
Fund balance - beginning	359,436	367,185	-	726,621
Fund balance - ending	$ 320,827	$ 364,986	$ -	$ 685,813

See accompanying notes to the financial statements.

Three Forks Regional Jail Authority, Inc.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis to the Statement of Activities - Modified Cash Basis

Year ended June 30, 2016

Net change in total fund balances per fund financial statements	$	(40,808)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.		(140,151)
Bond proceeds are shown as revenues in the fund financial statements but are increases of liabilities in the statement of activities. Bond principal payments are shown as expenses in the fund financial statements but are a reduction of liabilities in the statement of activities. The difference is the amount that debt outstanding decreased.		235,000
Change in net position of governmental activities	$	54,041

See the accompanying notes to the financial statements.

Three Forks Regional Jail Authority, Inc.

Statement of Revenues, Expenditures, and Changes in Fund Balance- Modified Cash Basis - Budget and Actual - General Fund

Year ended June 30, 2016

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Charges for services	$ 2,450,000	$ 2,450,000	$ 2,508,968	$ 58,968
Commissions	1,000	1,000	400	(600)
Miscellaneous	500	500	3,041	2,541
Reimbursements	27,000	27,000	42,071	15,071
Interest and gains	20	20	28	8
Intergovernmental-federal	25,000	25,000	30,000	5,000
Total Revenues	2,503,520	2,503,520	2,584,508	80,988
Expenditures				
Protection to persons and property:				
Salaries and benefits	1,179,558	1,179,558	1,218,474	(38,916)
Operations	530,600	530,600	587,200	(56,600)
Maintenance			51,758	(51,758)
Equipment	59,000	59,000	24,820	34,180
Total protection to persons and property	1,769,158	1,769,158	1,882,252	(113,094)
General and administrative:				
General services	220,000	220,000	170,508	49,492
Salaries and benefits	131,062	131,062	183,808	(52,746)
Total general and administrative	351,062	351,062	354,316	(3,254)
Total Expenditures	2,120,220	2,120,220	2,236,568	(116,348)
Excess (deficit) of revenues Over expenditures	383,300	383,300	347,940	(35,360)
Other financing sources (uses)				
Transfers (to) from	(383,300)	(383,300)	(386,549)	(3,249)
Total other financing sources and (uses)	(383,300)	(383,300)	(386,549)	(3,249)
Net change in fund balance	-	-	(38,609)	(38,609)
Fund Balance - beginning	-	-	359,436	359,436
Fund Balance - ending	$ -	$ -	$ 320,827	$ 320,827

See accompanying notes to the financial statements.

Three Forks Regional Jail Authority, Inc.

Statement of Revenues, Expenditures, and Changes in Fund Balance - Modified Cash Basis - Budget and Actual - Substance Abuse Program Fund

Year Ended June 30, 2016

	Substance Abuse Program Fund			
	Original Budget	**Final Budget**	**Actual**	**Variance Favorable (Unfavorable)**
Revenues				
Charges for services	$ -	$ -	$ -	$ -
Commissions				
Miscellaneous				
Reimbursements				
Interest and gains			1	1
Intergovernmental-state	68,175	68,175	54,679	(13,496)
Total Revenues	68,175	68,175	54,680	(13,495)
Expenditures				
Protection to persons and property:				
Salaries and benefits	45,000	45,000	32,112	12,888
Operations				
Maintenance				
Equipment				
Program	23,175	23,175	22,568	607
Total protection to persons and property	68,175	68,175	54,680	13,495
General and administrative:				
General services	-	-	-	-
Salaries and benefits				
Total general and administrative	-	-	-	-
Total Expenditures	68,175	68,175	54,680	13,495
Excess (deficit) of revenues Over expenditures	-	-	-	-
Other financing sources (uses)				
Transfers to and from debt service	-	-	-	-
Total other financing sources and (uses)	-	-	-	-
Net change in fund balance	-	-	-	-
Fund Balance - beginning	-	-	-	-
Fund Balance - ending	$ -	$ -	$ -	$ -

See accompanying notes to the financial statemetns.

Three Forks Regional Jail Authority, Inc.

Statement of Net Position -

Proprietary Fund - Modified Cash Basis

June 30, 2016

		Enterprise Fund
		Commissary Fund
ASSETS		
Current assets:		
Cash and cash equivalents	$	39,272
Due from other fund		51,078
Total current assets		90,350
Noncurrent assets:		
Capital assets		
Other capital assets, net of depreciation		32,904
Total noncurrent assets		32,904
Total assets		123,254
NET POSITION		
Net investment in capital assets		32,904
Unrestricted		90,350
Total net position		123,254
TOTAL LIABILITIES AND NET POSITION	$	123,254

See the accompanying notes to the financial statements.

Three Forks Regional Jail Authority, Inc.
Statement of Revenues, Expenses, and Changes in Net Position -
Proprietary Fund - Modified Cash Basis
Year ended June 30, 2016

		Enterprise Fund
		Commissary Fund
OPERATING REVENUES		
Commissary receipts	$	350,140
Commissions		39,268
Total operating revenues		389,408
OPERATING EXPENSES		
Depreciation		5,952
Operations		
Salaries & wages		33,152
Support		279,545
Total operating expenses		318,649
Operating income (loss)		70,759
NONOPERATING REVENUES (EXPENSES)		
Interest income		2
Total nonoperating revenues (expenses)		2
CHANGE IN NET POSITION		70,761
NET POSITION - BEGINNING		52,493
NET POSITION - ENDING	$	123,254

See the accompanying notes to the financial statements.

Three Forks Regional Jail Authority, Inc.

Statement of Cash Flows -

Proprietary Fund - Modified Cash Basis

Year ended June 30, 2016

		Enterprise Fund
		Commissary Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	389,408
Payments to employees		(33,152)
Payments to suppliers		(322,794)
Net cash provided (used) by operating activities		33,462
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest		2
Net cash provided (used) by investing activities		2
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		33,464
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		5,808
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		39,272
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:		
Operating income (loss)		70,759
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		5,952
Changes in assets and liabilities		
Due from prisoner fund		(43,249)
Net cash provided (used) by operating activities	$	33,462

See the accompanying notes to the financial statements.

Three Forks Regional Jail Authority, Inc.
Statement of Net Position -
Fiduciary Fund - Modified Cash Basis
June 30, 2016

		Fiduciary Fund
		Prisoner Fund
ASSETS		
Cash and cash equivalents	$	58,536
Total Assets		58,536
LIABILITIES		
Due to general fund		4,514
Due to commissary fund		51,078
Amounts held in custody for others		2,943
Total Liabilities	$	58,536

See the accompanying notes to the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The Three Forks Regional Jail Authority, Inc. (Authority) presents it's government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid with the exception of deferred revenue. Unearned revenue arises when assets are recognized before revenue recognition criteria have been met. Accounts receivable, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

The State Local Finance Officer does not require the Authority to report capital assets; however, the value of these assets are included in the Statement of Net Position net of their accumulated depreciation and associated debt and their corresponding depreciation expense and interest expense on debt associated with those assets are included in the Statement of Activities. The Commissary Fund reports capital assets, their corresponding depreciation, and related debt in the proprietary fund financial statements in addition to the Statement of Net Position and Statement of Activities.

2. Reporting Entity

The financial statements of the Authority include the funds for which the Authority is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the Authority is financially accountable or the organization's exclusion would cause the Authority's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented or shown separately from the primary government.

Blended Component Units

The following legally separate organization provided their services exclusively to the primary government. This organization's balances and transactions are reported as though they are part of the Authority's primary government using the blending method.

Three Forks Public Properties Corporation

The Three Forks Public Properties Corporation was established on October 6, 2000, by Lee County, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. The three participating counties are financially accountable and legally obligated for the debt of the Three Forks Public Properties Corporation as stipulated in each county's lease and sublease.

Discretely Presented Component Units

The Three Forks Regional Jail Authority has no discretely presented component units.

3. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all governmental and business-type activities of the Authority and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position is reported in three categories: 1) net investment in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or investment in capital assets. It is the Authority's policy to first spend restricted net position followed by unrestricted net position when an expenditure is incurred for which both restricted and unrestricted net position are available.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Internally dedicated resources are reported as general revenues.

The *Fund Financial Statements* characterize funds as either major or non-major. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Authority may also designate any fund as a major fund.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

<u>Governmental Funds</u>

The Authority reports the following funds:

General Fund:

This is the primary operating fund of the Three Forks Regional Jail Authority. It accounts for all financial resources of the general government, except where management requires that a separate fund be used for some function. This fund is always a major fund.

Debt Service Fund:

Three Forks Public Properties Corporation is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest payments. This is a major fund.

Special Revenue Fund:

The Special Revenue Fund accounts for proceeds of specific revenue sources that are legally restricted to disbursements for specified purposes. This fund accounts for the Substance Abuse Program (SAP) grant. This is a major fund.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses. The principal operating revenues of the Authority's enterprise fund are charges to customers for sales in the Jail Commissary Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The Authority reports the following major proprietary fund:

Jail Commissary Fund

The commissary 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, or recreation, of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the participating county's county treasurer the receipts and disbursements of the Jail Commissary Fund.

Fiduciary Funds

Fiduciary funds are reported using the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The Three Forks Regional Jail Authority's agency fund is used to account for monies held by the Authority in the Prisoner Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it does not measure results of operations.

The Authority reports the following fiduciary fund:

Prisoner Fund

This fund accounts for funds received from inmates to be used to purchase goods from the jail's commissary and to pay for charges of detention to the General Fund.

4. Cash and Cash Equivalents

The Authority's cash and cash equivalents are 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.

5. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment and vehicles that have a useful life of more than one reporting period based on the Authority's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Capital assets of business-type activities are also reported in the corresponding fund financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

Description	Capitalization Threshold	Useful Life (Years)
Land Improvements	$ 12,500	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	$ 2,500	3-25

5. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the contract period. The principal amount of debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

6. Fund Balance

In the fund financial statements, the difference between assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into five categories according to GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.

Restricted	Legally restricted under legislation, bond authority, grantor contract.
Committed	Commitments of future funds for specific purposes passed by the board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

The Authority has not adopted a GASB 54 spending policy therefore the default GASB 54 spending policy is being used. The default policy states that the spending order of funds is to first use restricted, followed by committed, assigned, and unassigned fund balances.

7. Budgetary Information

An annual budget is adopted on the modified cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The Three Forks Regional Jail Authority is required to submit estimated receipts and proposed expenditures 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 each county fiscal court by July 1. The Authority may change the original budget by transferring appropriations at the activity level; however, the Authority may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Authority's general fund expenditures exceeded its appropriations by $116,348 as of June 30, 2016.

A formal budget is not adopted for the Three Forks Public Properties Corporation Fund. The Governor's Office for Local Development does not require this fund to be budgeted.

NOTE B – DEPOSITS

The Authority maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and 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 Authority 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. The Authority's deposits are summarized below to give an indication of the level of risk assumed by the Authority as of June 30, 2016:

	Bank Balance		
Peoples Exchange Bank	Demand	Time	Totals
FDIC	$ 250,000	$ -	$ 250,000
Collateral pledged to entity	181,777	-	181,777
Bank balance	$ 431,777	$ -	$ 431,777

	Book Balance
	Cash equivalents
Governmental Activities	$ 329,278
Business-type Activities	39,272
Agency funds	58,536
Total carrying amount	$ 427,086

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

Governmental Activities	July 1, 2015	Additions	Deductions	June 30, 2016
Land - nondepreciable	$ 42,108	$ -	$ -	$ 42,108
Buildings	5,184,984	-	-	5,184,984
Vehicles and Equipment	211,444	19,587	-	231,031
Total at historical cost	5,438,536	19,587	-	5,458,123
Less: Accumulated depreciation				
Buildings	1,926,886	138,266	-	2,065,152
Vehicles and Equipment	122,094	21,472	-	143,566
Total accumulated depreciation	2,048,980	159,738	-	2,208,718
Total depreciable capital assets, net	3,389,556	(140,151)	-	3,207,297
Governmental Activities				
Capital Assets	$ 3,389,556	$ (140,151)	$ -	$ 3,249,405

Business-Type Activities		Additions	Deductions	
Land improvements	$ 17,800	$ -	$ -	$ 17,800
Buildings	25,210	-	-	25,210
Vehicles and equipment	62,523	-	-	62,523
Total at historical cost	105,533	-	-	105,533
Less: Accumulated depreciation				-
Land improvements	7,120	1,780	-	8,900
Buildings	4,034	672	-	4,706
Vehicles and equipment	55,523	3,500	-	59,023
Total accumulated depreciation	66,676	5,952	-	72,629
				-
Business-Type Activities				-
Capital Assets-net	$ 38,856	$ (5,952)	$ -	$ 32,904

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”**.**

NOTE D – LONG-TERM DEBT

1. Financing Program Revenue Bonds, Series 2012D

In September 2012, $5,570,000 of Series 2012 D First Series Financing Program Revenue Bonds were issued to refund the previously issued First Mortgage Revenue Bonds, Series 2000. The 2012D Series are scheduled to mature on February 1, 2032. The refunding resulted in a present value savings of $1,432,999 and a cumulative savings of $1,610,721 for the Authority. The new debt service requirements for the participating counties are as follows:

Lee County	$ 2,010,000	40%
Owsley County	$ 1,095,000	22%
Wolfe County	$ 1,890,000	38%

As of June 30, 2016, the bonds had $4,760,000 of debt outstanding. Debt service requirements for fiscal years ended after June 30, 2016 are as follow:

Fiscal Year Ended	Principal	Interest	Total
2017	$ 235,000	$ 135,215	$ 370,215
2018	250,000	129,340	379,340
2019	250,000	123,090	373,090
2020	260,000	116,840	376,840
2021	265,000	110,340	375,340
2022-2026	1,450,000	445,790	1,895,790
2027-2031	1,725,000	220,875	1,945,875
2032	325,000	10,563	335,563
Total	$ 4,760,000	$ 1,292,053	$ 6,052,053

2. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2016, was as follows:

Debt Issue Date	Original Amount	Maturity Date	Interest Rates	2015 Balance	Additions	Retirements	2016 Balance	Due In 1 Year
9/1/2012	$ 5,570,000	2/1/2013	2.0-3.25%	$4,995,000	$ -	$ 235,000	$4,760,000	$ 235,000

Debt Service on the Statement of Revenues Expenditures and Changes in Fund Balance – Modified Cash Basis includes $139,915 in interest on bonds from governmental activities.

On the Statement of Net Position there is $364,986 of certificates of deposit that are required per the bond ordinance for a sinking fund. This amount is considered restricted and is being held by the Kentucky League of Cities.

NOTE F – INSURANCE AND RISK MANAGEMENT

For the fiscal year ended June 30, 2016, the Three Forks Regional Jail Authority 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 members, the members are responsible for payment of the excess losses.

NOTE G – LITIGATION

The Three Forks Regional Jail Authority currently has pending litigation currently up on Appeal. The Authority has possible exposure for attorney's fees and punitive damages in excess of current insurance coverage should the plaintiff obtain a favorable judgment which is not estimable at this time.

NOTE H – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing coverage. Failure to comply with this requirement may put the Authority at risk for substantial loss (contingency).

NOTE I – OPERATING LEASES

The Authority entered into an operating lease agreement on October 9, 2012 for a dishwasher. The lease is for monthly payments of $78 till lease end date on October 9, 2017. Rental expense for the fiscal year ending June 30, 2016 is $931.

The Authority entered into an operating lease agreement on May 18, 2009 for a copier. The lease was renewed December 9, 2015 with an end date of December 9, 2020. The lease is for monthly payments of $295. Rental expense for the fiscal year ending June 30, 2016 is $4,064.

Future minimum lease payments for the leases are as follows:

June 30,	Amount
2017	4,473
2018	3,852
2019	3,542
2020	3,542
2021	1,476
	$ 16,885

NOTE J – TRANSFER OF FUNDS

From Fund	To Fund	Purpose	Amount
General Fund	Public Properties Corporation Fund	Debt Service Payments	$ 386,549

NOTE K – DEFICIT FUND/NET POSITION BALANCES

Fund	Reduction in Fund Balance / Net Position
Governmental Activities	$ (824,782)

NOTE L – INTERFUND BALANCES

Due From Fund	Due To Fund	Purpose	Amount
Prisoner Fund	Commissary Fund	Commissary Sales	$ 51,078
Prisoner Fund	General Fund	Jail Fees	$ 4,514

NOTE M – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through May 25, 2018, the date the financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees of the Three Forks Regional Jail Authority, Inc.
Fiscal Courts of Lee, Wolfe, and Owsley Counties
Three Forks Regional Jail Authority, Inc.
Beattyville, Kentucky

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 modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Three Forks Regional Jail Authority Inc., as of and for the year ended June 30, 2016, and the related notes to the modified cash basis financial statements, which collectively comprise the Three Forks Regional Jail Authority Inc.'s basic modified cash basis financial statements and have issued our report thereon dated May 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Three Forks Regional Jail Authority Inc.'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 opinions on the modified cash basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of Three Forks Regional Jail Authority Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Three Forks Regional Jail Authority Inc.'s internal control.

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 statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency [2016-001].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Three Forks Regional Jail Authority Inc.'s modified cash basis financial statements are 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Three Forks Regional Jail Authority, Inc. in a separate letter dated May 25, 2018.

Three Forks Regional Jail Authority Inc.'s Response to Finding

Three Forks Regional Jail Authority Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Three Forks Regional Jail Authority Inc.'s response was not subjected to the audited procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

White & Associates PSC

White & Associates, PSC
Richmond, Kentucky
May 25, 2018

THREE FORKS REGIONAL JAIL AUTHORITY, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended Jun 30, 2016

SUMMARY OF AUDITOR'S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed?	Yes
If so, were any significant deficiencies material (GAGAS)?	No
Was any material noncompliance reported (GAGAS)?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2016-001

Statement of Condition: Inadequate controls are in place for inventory control.

Criteria for Condition: Inventory is not being tracked.

Cause of the Condition: Lack of policies and procedures over inventory control.

Effect of the Condition: Increased susceptibility to misappropriation of inventory.

THREE FORKS REGIONAL JAIL AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2016

There were no financial statement findings in prior year.

THREE FORKS REGIONAL JAIL AUTHORITY
CORRECTIVE ACTION PLAN
Year Ended June 30, 2016

Date: May 25, 2018

Oversight Agencies: Kentucky State Auditor of Public Accounts, and the Fiscal Courts of: Lee, Wolfe and Owsley Counties

The *Three Forks Regional Jail Authority Inc.*, respectfully submits the following corrective action plan for the year ended June 30, 2016.

Name and Address of Independent Public Accounting Firm: White & Associates, PSC, 1407 Lexington Road, Richmond, Kentucky 40475.

Audit Period: For the year ended June 30, 2016.

The responses and recommendations for the finding from the year ended June 30, 2016 included in the Schedule of Findings and Responses are discussed below. The finding is numbered consistently with the numbers assigned in the schedule.

Finding 2016-001

Recommendation for Correction: Policies and procedures should be reviewed over the controls of inventory. Inventory should be maintained to determine the financial impact of the activity.

Management Response to the Recommendation: Will consider recommendation.

Implementation: Immediate

If the Kentucky State Auditor of Public Accounts, or the Fiscal Courts of: Lee, Wolfe or Owsley Counties have questions regarding this plan, please call me at 606-464-2598.

Sincerely yours,

Harvey Pelfrey

Harvey Pelfrey, Director