

**REPORT OF THE AUDIT OF THE  
KENTUCKY LAW ENFORCEMENT MEMORIAL FOUNDATION,  
INC.**

**For The Calendar Year Ended  
December 31, 2018**



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

Mark Turner, Board Chair  
Kentucky Law Enforcement Memorial Foundation, Inc.  
Funderburk Building  
521 Lancaster Avenue  
Richmond, KY 40475-3102

**Independent Auditor's Report**

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Kentucky Law Enforcement Memorial Foundation, Inc. (KLEMF) (a nonprofit organization), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise KLEMF's basic financial statements.

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

KLEMF's Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 an opinion 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 and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to KLEMF'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



KLEMF'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KLEMF, as of December 31, 2018 and the respective changes in its financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2019 on our consideration of KLEMF's internal control over financial reporting and on our test 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 KLEMF's 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 KLEMF's internal control over financial reporting and compliance.

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts

July 16, 2019

## **FINANCIAL STATEMENTS**





**KENTUCKY LAW ENFORCEMENT MEMORIAL FOUNDATION  
STATEMENT OF FINANCIAL POSITION**

**December 31, 2018**

Assets

Current Assets

|  |                |
|--|----------------|
| Cash and Cash Equivalents                    | \$ 132,278     |
| Accounts Receivable                          | 37,020         |
| Inventory                                    | 5,367          |
| Beneficial Interest in Assets Held by Others | 665,373        |
| Prepaid Expenses                             | 1,188          |
| Total Current Assets                         | <u>841,226</u> |

|  |                |
|--|----------------|
| Property and Equipment (Net of Accumulated Depreciation of \$93,875) | <u>195,381</u> |
|--|----------------|

|              |                            |
|--------------|----------------------------|
| Total Assets | <u><u>\$ 1,036,607</u></u> |
|--------------|----------------------------|

Liabilities and Net Assets

Current Liabilities

|                           |              |
|---------------------------|--------------|
| Sales Tax Payable         | \$ 15        |
| Payers Subscribed         | 200          |
| Printing Bill Payable     | 788          |
| Total Current Liabilities | <u>1,003</u> |

|                   |              |
|-------------------|--------------|
| Total Liabilities | <u>1,003</u> |
|-------------------|--------------|

Net Assets

|                            |                |
|----------------------------|----------------|
| Without Donor Restrictions | 201,034        |
| With Donor Restrictions    | <u>834,570</u> |

|                  |           |
|------------------|-----------|
| Total Net Assets | 1,035,604 |
|------------------|-----------|

|                                  |                            |
|----------------------------------|----------------------------|
| Total Liabilities and Net Assets | <u><u>\$ 1,036,607</u></u> |
|----------------------------------|----------------------------|

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

**KENTUCKY LAW ENFORCEMENT MEMORIAL FOUNDATION  
STATEMENT OF ACTIVITIES**

**For The Year Ended December 31, 2018**

| <u>Revenues</u>                                 | <b>Net Assets<br/>Without Donor<br/>Restrictions</b> | <b>Net Assets<br/>With Donor<br/>Restrictions</b> | <b>Total</b>        |
|---|--|---|---------------------|
| Contributions                                   | \$ 10,419  | \$ 162,140  | \$ 172,559          |
| Interest and Dividends                          |  | 25,374  | 25,374              |
| Special Events                                  | 20,811   |   | 20,811              |
| Net Unrealized Losses on Investments            |  | (76,320)  | (76,320)            |
| Net Realized Gains on Investments               |  | 1,406   | 1,406               |
| Merchandise Sales                               | 1,869  |   | 1,869               |
| <br>Net Assets Released From Restriction        |  |   |                     |
| Satisfaction of Purpose Restriction             | 152,231  | (152,231)   |                     |
| Total Revenues and Other Support                | <u>185,330</u>                                       | <u>(39,631)</u>                                   | <u>145,699</u>      |
| <br><u>Expenses</u>                             |  |   |                     |
| Program Expenses                                |  |   |                     |
| Benefits  |  |   |                     |
| Scholarships and Medical Grants                 | 61,500   |   | 61,500              |
| Death and Emergency Benefits Grants             | 78,500   |   | 78,500              |
| Monument  |  |   |                     |
| Monument Care and Maintenance                   | 8,841  |   | 8,841               |
| Monument Depreciation                           | 5,448  |   | 5,448               |
| Ceremonies Expense                              | 4,734  |   | 4,734               |
| Support Services Expenses                       |  |   |                     |
| Management Salaries                             | 36,000   |   | 36,000              |
| Advertising                                     | 3,592  |   | 3,592               |
| Office and Administrative                       | 12,325   |   | 12,325              |
| Office Equipment Depreciation                   | 581  |   | 581                 |
| Cash Management and Support Fees                | 12,469   |   | 12,469              |
| Fund Raising                                    | 5,653  |   | 5,653               |
| Total Expenses                                  | <u>229,643</u>                                       |   | <u>229,643</u>      |
| Transfers Between Restricted and Non-Restricted | 38,177   | (38,177)  |                     |
| Change in Net Assets                            | (6,136)  | (77,808)  | (83,944)            |
| Net Assets: January 1, 2018 As Restated         | 207,170  | 912,378   | 1,119,548           |
| Net Assets: December 31, 2018                   | <u>\$ 201,034</u>                                    | <u>\$ 834,570</u>                                 | <u>\$ 1,035,604</u> |

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

**KENTUCKY LAW ENFORCEMENT MEMORIAL FOUNDATION  
STATEMENT OF CASH FLOWS**

**For The Year Ended December 31, 2018**

|  |                          |
|--|--------------------------|
| Cash Flows From Operating Activities:                  |                          |
| Decrease in Net Assets                                 | \$ (83,944)              |
| Adjustments To Reconcile Change in Net Assets To       |                          |
| Net Cash Provided by (Used in ) Operating Activities   |                          |
| Depreciation Expense                                   | 6,029                    |
| (Increase) Decrease in:                                |                          |
| Accounts Receivable                                    | (1,330)                  |
| Prepaid Expenses                                       | 123                      |
| Inventory  | 2,498                    |
| Increase (Decrease) in:                                |                          |
| Payers Subscribed                                      | 200                      |
| Sales Tax Payable                                      | (109)                    |
| Accounts Payable                                       | 788                      |
| Unrealized Loss on Investments                         | 76,320                   |
| Realized Gain on Investments                           | (1,406)                  |
| Net Cash Used in Operating Activities                  | <u>(831)</u>             |
| Cash Flows From Investing Activities:                  |                          |
| Purchase of Property and Equipment                     | (3,392)                  |
| Proceeds From Investments                              | (21,070)                 |
| Sale of Stock  | 25,007                   |
| Purchase of Stock                                      | <u>(100,000)</u>         |
| Net Cash Provided by Investing Activities              | <u>(99,455)</u>          |
| Net Increase (Decrease) In Cash and Cash Equivalents   | (100,286)                |
| Cash and Cash Equivalents, Beginning of Year, Restated | <u>232,564</u>           |
| Cash and Cash Equivalents, End of Year                 | <u><u>\$ 132,278</u></u> |

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

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## **NOTES TO THE FINANCIAL STATEMENTS**



**KENTUCKY LAW ENFORCEMENT MEMORIAL FUND, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Activities**

The Kentucky Law Enforcement Memorial Foundation, Inc. (Foundation) was created on November 17, 1999 under the laws of the Commonwealth of Kentucky as a non-profit, non-stock corporation.

The Foundation has two primary purposes: 1) to honor law enforcement personnel slain in the line of duty by way of a memorial monument located at the Department of Criminal Justice Training in Richmond, Kentucky, and 2) to provide death benefits to certain survivors of fallen law enforcement officers, as well as scholarships grants, medical grants and emergency relief grants.

The Foundation is managed by a volunteer board of directors.

**Income Taxes**

The Foundation is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code; however, the Foundation is not exempt from tax imposed upon unrelated activity income. The Foundation currently has no unrelated business income and accordingly, no provision for income taxes has been recorded.

Under generally accepted accounting principles, the Foundation must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained. The Foundation does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits or possible related interest or penalties. The Foundation is no longer subject to U.S. federal income tax examinations by tax authorities for the years before 2015.

**Financial Statement Presentation**

The Foundation prepares its financial statements in accordance with generally accepted accounting principles for non-profit organizations, which require the Foundation to report information regarding its financial position and activities according to two classes of net assets: Without Donor Restrictions and With Donor Restrictions.

- a) Without donor restriction net assets encompass the portion of net assets that do not have donor-imposed stipulations.
- b) Donor restricted net assets are the net assets resulting from contributions and other inflows whose use by the Foundation is limited by donor-imposed stipulations. Kentucky Law Enforcement Memorial License Plate revenues and the interest, dividends, and gains associated with those revenues are restricted by the Kentucky Revised Statutes to program expenses delineated in an affidavit submitted by the Foundation and approved by the Kentucky Transportation Cabinet. These expenses cannot include administration expenses.

**KENTUCKY LAW ENFORCEMENT MEMORIAL FUND, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**  
**(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Public Support and Revenue Recognition**

The Foundation receives contributions from two main sources: Kentucky Law Enforcement Memorial License Plate funds transferred from the Kentucky Transportation Cabinet and individual contributions. With the exception of Kentucky Law Enforcement Memorial License Plate funds, the contributions are available for unrestricted use and reported as Without Donor Restriction contributions. The Kentucky Law Enforcement Memorial License Plate funds are reported as With Donor Restricted contributions. When a donor restriction expires, that is when a stipulated time restriction ends, or purpose restriction is accomplished, With Donor Restriction net assets are reclassified to Without Donor Restriction net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as Without Donor Restriction contributions.

**Accounts Receivable**

Accounts receivable consists only of fourth quarter license plate revenue owed to the Foundation. The Foundation records all accounts receivable at their estimated net realizable value. An allowance for doubtful accounts was not recorded as of December 31, 2018 as management deemed all accounts receivable fully collectible.

**Property and Equipment**

Property and equipment are capitalized at cost. It is the Foundation's policy to capitalize expenditures for these items that cost \$500 or more. Lesser amounts are expensed. Property and equipment are being depreciated over estimated useful lives of three to 50 years using a straight-line method.

**Advertising**

The Foundation expenses advertising costs as they are incurred. Advertising was \$3,592 for the year ended December 31, 2018.

**Inventories**

Inventories are stated at the lower of cost (first in, first out) or market.

**Cash and Cash Equivalents**

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.



**KENTUCKY LAW ENFORCEMENT MEMORIAL FUND, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**  
**(Continued)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Managements' Review of Subsequent Events**

The Foundation has evaluated and considered the need to recognize or disclose subsequent events through July 16, 2019 which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal years ended December 31, 2018, have not been evaluated by the Foundation.

**NOTE 2 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS**

The Foundation has a beneficial interest in an agency endowment fund (Fund) held by Blue Grass Community Foundation (BGCF) in Lexington, Kentucky. Under the terms of a written agreement between the Foundation and BGCF titled Instrument of Gift for an Agency Endowment Fund executed May 9, 2002, the following mutual covenants were agreed to by both parties;

- 1) The dollar amount distributed to the Foundation annually by BGCF shall be used exclusively for support of any one or more of the charitable purposes of the Foundation as the governing body of the Foundation in its sole discretion determines;
- 2) From the total return (consisting of earned income plus/minus appreciation/depreciation) produced by the Fund, BGCF intends to distribute annually an amount net of charges that BGCF Board shall determine as the payout rate for all funds. The amount of total returns above such distributed amounts and fees will continue to be reinvested. Since the establishment of the Fund on May 9, 2002, through December 31, 2017, the BGCF had not distributed any amounts to the Foundation. At the Foundation's request, in calendar year 2018 BGCF distributed \$25,007;
- 3) The Foundation contributed \$20,000 to begin the Fund in 2002 and subsequently has contributed another \$475,000 for a total contribution of \$495,000. The Foundation, based on unusual circumstances of need or opportunity deemed sufficient to it, may recommend and request payment to it of amounts of principal of the initial contribution and of subsequent contributions by the Foundation as the same has appreciated or depreciated. The Board of BGCF will grant such request if it concludes, upon independent review, that such distribution is neither unreasonable nor inconsistent with the charitable purposes of BGCF and the Foundation;

**KENTUCKY LAW ENFORCEMENT MEMORIAL FUND, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**  
**(Continued)**

**NOTE 2 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS (Continued)**

- 4) BGCF agrees that if its governing board proposes to exercise the variance power, as provided in Article II of the BGCF's Articles of Incorporation as amended through December 18, 1995 (the "Variance Clause"), the exercise of such power shall not be effective earlier than at least ninety (90) days after the BGCF notifies the Foundation in writing of (1) its intent to exercise such power, and (2) the manner in which BGCF proposes to vary the purposes or uses or methods of administration of the Fund. During the notice period, the Foundation may advise the BGCF of its views regarding the proposed exercise of the power and take such other action as it deems appropriate.

In July 2018 the fund was sub-divided into two accounts. The first account retains the original intent and restrictions as the original account. The second account was established using a \$100,000 infusion of Foundation cash. It represents funds with fewer BGCF restrictions.

The fair market value of the total Fund for year ended December 31, 2018, was \$665,373 of which the first and second account values were \$574,151 and \$91,222 respectively. This amount is reported in the Foundation's statement of financial position as "Beneficial interest in assets held by others".

**NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair values of assets measured on a recurring basis at December 31, 2018 are as follows:

|  | <u>Fair Value Measurement Using:</u> |                |                |                   |
|--|--------------------------------------|----------------|----------------|-------------------|
|  | <u>Fair Value</u>                    | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u>    |
| Beneficial Interest in Assets Held by Others | <u>\$ 665,373</u>                    |                |                | <u>\$ 665,373</u> |

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs would primarily be valued based on quoted prices for similar assets in active or inactive markets.

The Foundation considers the measurement of its beneficial interest in assets to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair values of the trust assets reported by the trustee, the Foundation does not have the ability to direct the trustee to redeem them.

**KENTUCKY LAW ENFORCEMENT MEMORIAL FUND, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**  
**(Continued)**

**NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2018:

|                                | <b>Beneficial Interest<br/>in Trusts</b> |
|--------------------------------|--|
| Balance at December 31, 2017   | \$ 644,223                               |
| Additional Investment by KLEMF | 100,000                                  |
| Interest and Dividends         | 25,260                                   |
| Realized Gains                 | 1,406                                    |
| Unrealized Losses              | (76,320)                                 |
| Investment Fees                | (4,189)                                  |
| Disbursement to KLEMF          | (25,007)                                 |
| Balance at December 31, 2018   | <u>\$ 665,373</u>                        |

**NOTE 4 - PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment as of December 31, 2018:

|                                |                   |
|--------------------------------|-------------------|
| Memorial Monument              | \$ 273,534        |
| Office Equipment and Furniture | <u>15,722</u>     |
|                                | 289,256           |
| Less Accumulated Depreciation  | <u>(93,875)</u>   |
| Total                          | <u>\$ 195,381</u> |

**NOTE 5 - FUNDRAISING ACTIVITIES**

The Foundation held one main fundraising event in 2018, a Golf Scramble. Total fundraising associated expenses and revenues incurred were \$6,441 and \$15,030 respectively. The Foundation also participated in a 5K fundraiser and received Paver Donations for a total a net revenue of \$5,781.

**KENTUCKY LAW ENFORCEMENT MEMORIAL FUND, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**  
**(Continued)**

**NOTE 6 - LIQUIDITY MANAGEMENT**

KLEMF defines general expenditures as those expenditures which are of a non-KLEM nature. As such, they represent all non-depreciation costs associated with Support Services as shown in note 7. KLEMF's financial assets available within one year of the balance sheet date for general expenditures are as follows:

|                                   |                        |
|-----------------------------------|------------------------|
| Petty Cash                        | \$ 100                 |
| Forecasted non-KLEM 2019 revenues | <u>33,100</u>          |
| Total                             | <u><u>\$33,200</u></u> |

The following reflects the Foundation's liquid financial assets as of the balance sheet date, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts received from the Kentucky Law Enforcement License Plate revenue, earnings on these same funds, and any funds that have been comingled with these funds.

|  |                      |
|--|----------------------|
| Financial Assets, December 31, 2018  | \$ 834,670           |
| Less those unavailable for general expenditures within one year, due to:               |                      |
| Donor-imposed restrictions:  |                      |
| Restricted by donor with purpose restrictions  | <u>834,570</u>       |
| Financial Assets available to meet cash needs for general expenditures within one year | <u><u>\$ 100</u></u> |

The Foundation is substantially supported by donor-restricted contributions. Because a donor's restriction requires resources to be used in a particular manner, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

For 2019 the Foundation conservatively expects to receive \$33,100 in non-KLEM funds through individual contributions, fund raising events, and memorabilia sales. General expenditures for the same year are expected to be \$53,200. The Foundation plans to address the resulting \$20,100 shortfall by increasing its non-KLEM fund raising efforts and reducing general expenditures to the minimum.

**KENTUCKY LAW ENFORCEMENT MEMORIAL FUND, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**  
**(Continued)**

**NOTE 7 - EXPENSE DISCLOSURES**

| <b>Calendar Year 2018 Expenses by Both Function and Nature</b> |                         |                  |                   |                         |                               |                   |
|--|-------------------------|------------------|-------------------|-------------------------|-------------------------------|-------------------|
|  | <b>Program Services</b> |                  |                   | <b>Support Services</b> |                               | <b>Total</b>      |
|  | <b>Benefits</b>         | <b>Memorial</b>  | <b>Ceremonies</b> | <b>Fundraising</b>      | <b>Management and General</b> |                   |
| Salaries   | \$                      | \$               | \$                | \$                      | \$ 36,000                     | \$ 36,000         |
| Grants   | 140,000                 |                  |                   |                         |                               | 140,000           |
| Professional Fees  |                         | 8,841            | 4,734             | 5,653                   | 16,835                        | 36,063            |
| Depreciation   |                         | 5,448            |                   |                         | 581                           | 6,029             |
| Sales Costs  |                         |                  |                   |                         | 3,595                         | 3,595             |
| Travel/Meetings  |                         |                  |                   |                         | 2,550                         | 2,550             |
| Communications/Supplies  |                         |                  |                   |                         | 2,519                         | 2,519             |
| Printing/Copying   |                         |                  |                   | 788                     | 747                           | 1,535             |
| Insurance  |                         |                  |                   |                         | 1,352                         | 1,352             |
| <b>Total</b>   | <b>\$ 140,000</b>       | <b>\$ 14,289</b> | <b>\$ 4,734</b>   | <b>\$ 6,441</b>         | <b>\$ 64,179</b>              | <b>\$ 229,643</b> |

**NOTE 8 - RESTATEMENT OF NET ASSETS**

The Foundation restated net assets to reflect a change in cash deposits. The effect of this restatement on net assets is below:

|  |                     |
|--|---------------------|
| Net Assets December 31, 2017             | \$ 1,120,391        |
| Cash Account Reduction                   | <u>(843)</u>        |
| Net Assets as Restated December 31, 2017 | <u>\$ 1,119,548</u> |

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







MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Mark Turner, Board Chair  
Kentucky Law Enforcement Memorial Foundation, Inc.  
Funderburk Building  
521 Lancaster Avenue  
Richmond, KY 40475-3102

We have audited, in accordance with the 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 financial statements of the Kentucky Law Enforcement Memorial Foundation (KLEMF) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise KLEMF's financial statements, and have issued our report thereon dated July 16, 2019.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered KLEMF'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of KLEMF's internal control. Accordingly, we do not express an opinion on the effectiveness of KLEMF's internal control.

Our consideration of internal control over 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 findings and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency as 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 statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying schedule of findings and recommendations to be a material weakness: KLEMF-01.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With *Government Auditing Standards*  
(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 following deficiency, described in the accompanying schedule of findings and recommendations, to be significant deficiency: KLEMF-02.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether KLEMF's financial statements are free from 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 one instance of a noncompliance or other matter that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and recommendation as item KLEMF-01. Other material weaknesses may exist that have not been identified. Testing revealed no other instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,



Mike Harmon  
Auditor of Public Accounts

July 16, 2019

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**



**KENTUCKY LAW ENFORCEMENT MEMORIAL FOUNDATION, INC.**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

*Material Weaknesses Relating to Internal Controls and/or Noncompliances*

**FINDING KLEMF-01: KLEMF Did Not Comply With Kentucky Statutes To Segregate KLEM Funds From Other Funds And To Ensure That KLEM Funds Were Only Spent On Authorized Items**

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During the audit of the Kentucky Law Enforcement Memorial Foundation (KLEMF) financial records for CY 2018 the following issues were noted.

- KLEMF cash accounts comingle Kentucky Law Enforcement Memorial (KLEM) plate funds and non-KLEM funds. At the end of 2018 KLEMF had \$41,132 in comingled accounts.
- Administrative, personnel, and other disallowed expenditures were made in 2018 from the comingled accounts by KLEMF. During CY 2018 KLEMF spent \$74,773 of comingled funds on activities disallowed for KLEM funding. These expenditures included \$36,000 for the Director's salary and \$24,794 for administrative costs.

KRS requires fund segregation and restricts what KLEM funds can be spent upon. KLEM expenditures are allowable if they are not for administrative or personnel costs and are within the objectives listed in KLEMF's affidavit filed with the Kentucky Transportation Cabinet (KYTC). The allowable affidavit objectives pertinent to calendar year 2018 are:

1. Supplying death benefit to officers killed in the line of duty.
2. Provide emergency financial assistance to officers and/or family members in time of crisis.
3. Award educational scholarships to officers, family members and survivors.
4. Maintain the Memorial Site with the listing of all fallen officer names.

KLEMF has no policies and procedures to ensure funds are segregated as required by KRS. KLEMF has no policies and procedures to ensure only KLEM qualifying expenditures are made from KLEM-segregated accounts.

Failure to segregate the KLEM and non-KLEM funds in the KLEMF checking accounts also prevents KLEMF from distinguishing between Net Assets with donor-restrictions and Net Assets without donor restrictions as is required by financial reporting standards for not-for-profit entities.

KRS 186.164 subsections (12) and (13)(c) specify that the purpose for which the donated funds will be used must be stated, in an affidavit, and that donated funds shall not be used for administrative or personnel costs of the group or organization.

KRS 186.164 subsection (14) requires funds received under subsection (12) to be deposited into an account separate from all other accounts. In addition, all funds received pursuant to subsection (12) must be used for the express purpose identified under subsection (13).

ASU 2016-14 provides reporting standards for Not-For-Profit organizations. These standards require the Financial Statements to present Net Assets with donor-restrictions and Net Assets without donor restrictions.

**KENTUCKY LAW ENFORCEMENT MEMORIAL FOUNDATION, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(Continued)**

*Material Weaknesses Relating to Internal Controls and/or Noncompliances*

**FINDING KLEMF-01: KLEMF Did Not Comply With Kentucky Statutes To Segregate KLEM Funds From Other Funds And To Ensure That KLEM Funds Were Only Spent On Authorized Items (Continued)**

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**Recommendation**

We recommend KLEMF segregate its funds between KLEM and non-KLEM sources and implement policies and procedures to ensure this segregation is maintained.

We also recommend KLEMF implement policies and procedures to ensure that expenditures paid for from KLEM funding sources are allowed by KRS/affidavit and that non-KLEM goods and services are paid from non-KLEM funding sources only.

**Management's Response and Planned Corrective Action**

*All KLEMF policies and procedures related to identifying segregated fund accounts, investment policy and segregation of the duties of the board of directors, executive director, KLEMF Treasurer and KLEMF secretary have been amended to meet the guidelines noted in correspondence received from the State Auditor's Office. On this date the new policies and procedure were delivered to the treasurer and secretary. During the meeting held by the executive director at the KLEMF office, each policy was discussed and reviewed with all the secretary and treasurer. Copies of the policy memo were hand delivered to all attendees and all were notified that the new policies go into effect this date. Board member [Name Redacted] was designated as the individual that will complete the monthly reconciliation of source binder, bank statements and check books from the Restrictive Donor and Non-Restrictive Donor KLEMF bank accounts. Her findings will be submitted to the secretary and executive director each month.*

*The KLEMF Treasurer has switched to a new computer and is updating journal entries to comply with noted deficiencies. The new computer and Quickbook software will require reentering of data for the month of May 2019. KLEMF is also seeking the assistance from our accounting firm to update our Quickbook programs and train the treasurer on the Quickbook accounting system.*

**KENTUCKY LAW ENFORCEMENT MEMORIAL FOUNDATION, INC.  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(Continued)**

*Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

**FINDING KLEMF-02: KLEMF Did Not Segregate Duties Involving Cash Receipts And Disbursements, Financial Records, And Bank Reconciliations**

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During the audit of the Kentucky Law Enforcement Memorial Foundation (KLEMF) financial records for CY 2018 the following issues were noted:

- The KLEMF Treasurer has overlapping duties which should be segregated. These duties include expenditure approval, check writing, check creation and signing, fund receipt and deposit, records keeping, and bank reconciliation.
- KLEMF has a dual-signature check signing internal control as required by KLEMF policy but all checks tested had an electronic signature for one of the two signatures.
- KLEMF Management is not being given the results of the monthly bank reconciliations as required by KLEMF procedures.

KLEMF policies and procedures do not segregate the Treasurer's overlapping duties. In the case where these duties cannot be segregated compensating controls are not implemented and monitored.

KLEMF policies and procedures do not forbid the use of electronic signatures on checks.

KLEMF policies and procedures do not have a system to ensure compliance with their own requirement that bank reconciliations be reported.

A duplicate deposit for \$246 remained uncorrected in the records for 14 months while the cancellation of a \$175 check was similarly not recorded for 8 months.

When one employee is responsible for the approval, receipt, disbursement, and reconciliation process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

Effective internal controls require proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account.

Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

**KENTUCKY LAW ENFORCEMENT MEMORIAL FOUNDATION, INC.**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(Continued)**

*Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

**FINDING KLEMF-02: KLEMF Did Not Segregate Duties Involving Cash Receipt And Disbursements, Financial Records, And Bank Reconciliations (Continued)**

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**Recommendation**

We recommend KLEMF segregate duties over approval, receipts, disbursements, and the bank reconciliation process. Until incompatible duties are properly segregated, KLEMF should implement compensating controls over these functions. A compensating control would be assigning the responsibility of preparing or reviewing the deposits, receipts, disbursements, and bank reconciliations to another individual. These reviews must be documented in a way that indicates what was reviewed, by whom, and when.

**Management's Response and Planned Corrective Action**

*All KLEMF policies and procedures related to identifying segregated fund accounts, investment policy and segregation of the duties of the board of directors, executive director, KLEMF Treasurer and KLEMF secretary have been amended to meet the guidelines noted in correspondence received from the State Auditor's Office. On this date the new policies and procedure were delivered to the treasurer and secretary. During the meeting held by the executive director at the KLEMF office, each policy was discussed and reviewed with all the secretary and treasurer. Copies of the policy memo were hand delivered to all attendees and all were notified that the new policies go into effect this date. Board member [Name Redacted] was designated as the individual that will complete the monthly reconciliation of source binder, bank statements and check books from the Restrictive Donor and Non-Restrictive Donor KLEMF bank accounts. Her findings will be submitted to the secretary and executive director each month.*

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