

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

**For The Fiscal Year Ended
June 30, 2016**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
HARLAN COUNTY FISCAL COURT

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Harlan County Fiscal Court for the fiscal year ended June 30, 2016.

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

Financial Condition:

The Harlan County Fiscal Court had total receipts of \$18,401,882, debt proceeds of \$19,450, and disbursements of \$16,006,324 in fiscal year 2016. This resulted in a total ending fund balance of \$18,751,989, which is an increase of \$2,415,008 from the prior year.

Findings:

- 2016-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections
- 2016-002 The Harlan County Fiscal Court Insured Assets For Other Legally Separate Entities
- 2016-003 The Harlan County Fiscal Court Failed To Improve Internal Controls Over The Payroll Process

Deposits:

The fiscal court's deposits as of June 30, 2016 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$17,787

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Dan Mosley, Harlan County Judge/Executive
Members of the Harlan 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 the Harlan County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Harlan County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Harlan County Fiscal Court as of June 30, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Harlan County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2017 on our consideration of the Harlan County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Harlan County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2016-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections
- 2016-002 The Harlan County Fiscal Court Insured Assets For Other Legally Separate Entities
- 2016-003 The Harlan County Fiscal Court Failed To Improve Internal Controls Over The Payroll Process

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 9, 2017

HARLAN COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Dan Mosley	County Judge/Executive
Clark Middleton	Magistrate
Bill Moore	Magistrate
David Kennedy	Magistrate
Jim Roddy	Magistrate
James Howard	Magistrate

Other Elected Officials:

Fred Busroe	County Attorney
Bradley J. Burkhart	Jailer
Donna Hoskins	County Clerk
Wendy Flanary	Circuit Court Clerk
Leslie E. Smith	Sheriff
Felicia Wooten	Property Valuation Administrator
Philip Bianchi	Coroner

Appointed Personnel:

Ryan Creech	County Treasurer
Alice Hensley	Chief Financial Officer
Margie Shope	Account Payables
Stacey Madon	Payroll Clerk
Genese Brewer	Secretary

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

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 4,764,674	\$	\$	\$
In Lieu Tax Payments	8,090	1,693		
Excess Fees	25,000			
Licenses and Permits	161,805			
Intergovernmental	1,793,582	2,077,064	2,091,238	1,044,300
Charges for Services	1,299,036		41,249	
Miscellaneous	578,831	8,581	152,705	2,905
Interest	7,452	5,279		1,778
Total Receipts	<u>8,638,470</u>	<u>2,092,617</u>	<u>2,285,192</u>	<u>1,048,983</u>
DISBURSEMENTS				
General Government	2,412,231			42,125
Protection to Persons and Property	136,656		2,050,417	58,692
General Health and Sanitation	1,427,511			270,338
Social Services	28,156			
Recreation and Culture	25,773			280,442
Roads		1,954,184		
Airports	106,669			
Debt Service	97,568			
Capital Projects	3,933			
Administration	1,369,666	383,590	632,205	128,345
Total Disbursements	<u>5,608,163</u>	<u>2,337,774</u>	<u>2,682,622</u>	<u>779,942</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>3,030,307</u>	<u>(245,157)</u>	<u>(397,430)</u>	<u>269,041</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	200,470	267,936	378,523	
Transfers To Other Funds	(378,523)	(200,470)		(267,936)
Borrowed Money	19,450			
Total Other Adjustments to Cash (Uses)	<u>(158,603)</u>	<u>67,466</u>	<u>378,523</u>	<u>(267,936)</u>
Net Change in Fund Balance	2,871,704	(177,691)	(18,907)	1,105
Fund Balance - Beginning	5,323,617	4,025,609	44,731	1,812,154
Fund Balance - Ending	<u>\$ 8,195,321</u>	<u>\$ 3,847,918</u>	<u>\$ 25,824</u>	<u>\$ 1,813,259</u>
Composition of Fund Balance				
Bank Balance	\$ 6,098,372	\$ 1,365,187	\$ 111,418	\$ 1,072,669
Plus: Deposits In Transit	4,127			150
Less: Outstanding Checks	(311,641)	(21,844)	(85,594)	(10,932)
Certificates of Deposit	2,404,463	2,504,575		751,372
Fund Balance - Ending	<u>\$ 8,195,321</u>	<u>\$ 3,847,918</u>	<u>\$ 25,824</u>	<u>\$ 1,813,259</u>

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

HARLAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

	Budgeted Funds			
	Federal Grants Fund	Sinking Fund	Local Government Economic Development Fund	Airport Fund
RECEIPTS				
Taxes	\$	\$	\$	\$
In Lieu Tax Payments				
Excess Fees				
Licenses and Permits				
Intergovernmental	252,500		2,081,277	
Charges for Services				
Miscellaneous		82,274		700,000
Interest	11	24		
Total Receipts	<u>252,511</u>	<u>82,298</u>	<u>2,081,277</u>	<u>700,000</u>
DISBURSEMENTS				
General Government			11,660	
Protection to Persons and Property			55,471	
General Health and Sanitation	252,500		1,861,847	
Social Services			100,159	
Recreation and Culture			97,016	
Roads				
Airports				57,678
Debt Service		835,268		
Capital Projects			63,457	
Administration				
Total Disbursements	<u>252,500</u>	<u>835,268</u>	<u>2,189,610</u>	<u>57,678</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other				
Adjustments to Cash (Uses)	<u>11</u>	<u>(752,970)</u>	<u>(108,333)</u>	<u>642,322</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds				
Transfers To Other Funds				
Borrowed Money				
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance	11	(752,970)	(108,333)	642,322
Fund Balance - Beginning	116,078	852,555	3,430,287	
Fund Balance - Ending	<u>\$ 116,089</u>	<u>\$ 99,585</u>	<u>\$ 3,321,954</u>	<u>\$ 642,322</u>
Composition of Fund Balance				
Bank Balance	\$ 131,089	\$ 99,585	\$ 3,419,406	\$ 642,322
Plus: Deposits In Transit				
Less: Outstanding Checks	(15,000)		(97,452)	
Certificates of Deposit				
Fund Balance - Ending	<u>\$ 116,089</u>	<u>\$ 99,585</u>	<u>\$ 3,321,954</u>	<u>\$ 642,322</u>

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

HARLAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

	<u>Budgeted Funds</u>		<u>Unbudgeted Funds</u>		<u>Total Funds</u>
	<u>Emergency 911 Fund</u>	<u>Justice Center Public Properties Corporation Fund</u>	<u>Jail Commissary Fund</u>		
RECEIPTS					
Taxes	\$ 125,137	\$	\$		\$ 4,889,811
In Lieu Tax Payments					9,783
Excess Fees					25,000
Licenses and Permits					161,805
Intergovernmental	155,067	665,475			10,160,503
Charges for Services					1,340,285
Miscellaneous			274,760		1,800,056
Interest	94	1			14,639
Total Receipts	<u>280,298</u>	<u>665,476</u>	<u>274,760</u>		<u>18,401,882</u>
DISBURSEMENTS					
General Government					2,466,016
Protection to Persons and Property	331,850				2,633,086
General Health and Sanitation					3,812,196
Social Services					128,315
Recreation and Culture			259,848		663,079
Roads					1,954,184
Airports					164,347
Debt Service		665,475			1,598,311
Capital Projects					67,390
Administration	5,594				2,519,400
Total Disbursements	<u>337,444</u>	<u>665,475</u>	<u>259,848</u>		<u>16,006,324</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(57,146)</u>	<u>1</u>	<u>14,912</u>		<u>2,395,558</u>
Other Adjustments to Cash (Uses)					
Transfers From Other Funds					846,929
Transfers To Other Funds					(846,929)
Borrowed Money					19,450
Total Other Adjustments to Cash (Uses)					<u>19,450</u>
Net Change in Fund Balance	(57,146)	1	14,912		2,415,008
Fund Balance - Beginning	594,418	2,545	134,987		16,336,981
Fund Balance - Ending	<u>\$ 537,272</u>	<u>\$ 2,546</u>	<u>\$ 149,899</u>		<u>\$ 18,751,989</u>
Composition of Fund Balance					
Bank Balance	\$ 542,032	\$ 2,546	\$ 169,126		\$ 13,653,752
Plus: Deposits In Transit			527		4,804
Less: Outstanding Checks	(4,760)		(19,754)		(566,977)
Certificates of Deposit					5,660,410
Ending Fund Balance	<u>\$ 537,272</u>	<u>\$ 2,546</u>	<u>\$ 149,899</u>		<u>\$ 18,751,989</u>

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

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HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The Harlan County Industrial Development Authority Board, the Tucker Guthrie Airport, and the Sleepy Hollow Golf Course would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis they are no longer required components of the reporting entity.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental 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, 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 sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (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 governments, 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.

Federal Grants Fund - The primary purpose of this fund is to account for federal grants and related disbursements. The primary source of receipts for this fund is federal grants.

Sinking Fund - The primary purpose of this fund is to process debt payments. The primary sources of receipts for this fund are general fund, local government economic assistance fund, and local government economic development fund monies.

Local Government Economic Development Fund - The purpose of this fund is to account for projects funded by local government economic development funds. The primary sources of receipts are grants received from the Department for Local Government.

Airport Fund - The purpose of this fund is to account for insurance proceeds and disbursements to repair the airport terminal. The primary source of receipts is an insurance settlement as a result of damage that occurred to the airport facilities.

Emergency 911 Fund - The purpose of this fund is to account for emergency 911 receipts and disbursements. The sole source of receipts for this fund is telephone tax.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Justice Center Public Properties Corporation Fund - The purpose of this fund is to account for debt service requirements of the justice center public properties corporation refunding revenue bonds. The Department for Local Government does not require the fiscal court to budget this fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of 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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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 Governmental 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.

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

The State Local Finance Officer does not require the justice center public properties corporation fund to be budgeted.

E. Harlan County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Harlan 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 the Harlan County Fiscal Court.

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

F. Deposits and Investments

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

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

KRS 66.480 authorizes the county to invest in 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.

H. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing body. Based on these criteria, the Harlan County Outdoor Recreation Board Authority (HCORBA) is considered a related organization of the Harlan County Fiscal Court.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court 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.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. On June 30, 2016, the fiscal court's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$17,787

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 200,470	\$	\$ 200,470
Road Fund			267,936	267,936
Jail Fund	378,523			378,523
Total Transfers Out	<u>\$ 378,523</u>	<u>\$ 200,470</u>	<u>\$ 267,936</u>	<u>\$ 846,929</u>

Reason for transfers:

To move resources from and to multiple 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 trust funds:

Louellen Escrow Fund - The fund is held by the Harlan County Fiscal Court for the Army Corps of Engineers for sewer projects located in Harlan County. The balance in the Louellen escrow fund as of June 30, 2016 was \$226,452.

Cloverfork Escrow Fund - This fund is held by the Harlan County Fiscal Court for the Army Corps of Engineers for flood projects located in Harlan County. The balance in the Cloverfork escrow fund as of June 30, 2016 was \$3,111.

Flood Control Fund - This fund is held by the Harlan County Fiscal Court for the Army Corps of Engineers for flood projects located in Harlan County. The balance in the flood control fund as of June 30, 2016 was \$1,103.

City of Cumberland Hazard Mitigation Project - This fund is jointly held by the Harlan County Fiscal Court and a local banking institution for the City of Cumberland for assistance with various hazard mitigation activities to prevent flood damage, including but not limited to retrofitting sewage lift stations, construction of sewer lines, construction of concrete box culverts and ditching, installing weather warning sirens, and installing generators. The balance in the City of Cumberland hazard mitigation project as of June 30, 2016 was \$72,837.

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2016 was \$1,778.

Note 5. Accounts Receivable - Harlan County Industrial Development Authority Board

On May 18, 2006, the Harlan County Fiscal Court entered into an installment promissory note for property located at Lynch, Kentucky. The fiscal court had remitted debt payments accordingly, as was specified in the debt agreement. Although no formal written agreement existed between the fiscal court and the Harlan County Industrial Development Authority (IDA) Board at the time the debt agreement was signed, the two entities later signed an agreement on May 22, 2009, memorializing the intent and practice of the parties, retroactive in formality to May 2, 2005.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Accounts Receivable - Harlan County Industrial Development Authority Board (Continued)

This agreement states any debt payments made on behalf of the IDA board by the fiscal court are considered a loan, and the IDA board will resume debt payments and will repay the sums paid by the fiscal court when funds become available. The IDA paid the bank loan off on October 22, 2014, leaving a principal balance of \$0 as June 30, 2015. During fiscal year 2015, the fiscal court determined that an accounts receivable of \$460,002 was due from the IDA board for reimbursement of debt payments made by the fiscal court on behalf of the IDA board. On October 20, 2015, the IDA board paid \$303,712 on the accounts receivable leaving a balance due of \$156,290 as of June 30, 2016.

Note 6. Reserved For Youth Activities And Facilities

On January 11, 2010, the Harlan County Circuit Court ordered \$500,000 to be donated to the Harlan County Fiscal Court from two defendants in a criminal action case. These funds were ordered to be designated for the sole use of drug abuse prevention through youth activities and facilities. These funds are maintained in the general fund.

Note 7. Landfill Escrow Account

This account was the result of a settlement reached between the Commonwealth of Kentucky and Harlan County Fiscal Court to cover the costs of cleaning up violations associated with a landfill operated by the county. The money in this account was used for the purposes of cleaning up the landfill. Money was deposited and the state withdrew money as needed. As of June 30, 2016, the landfill is non-operational and the remaining balance in the account is \$43,225.

Note 8. Legal Contingencies

The county is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate, they could negatively or favorably impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 9. Lease Agreement

On July 16, 2015, the Harlan County Fiscal Court entered into a lease agreement to lease several vehicles for use by the county. The vendor will, on or about the date of delivery of each vehicle to the county, include a schedule covering the vehicle, which will include a description of the vehicle, the lease term and the monthly rental and other payments due with respect to the vehicle. The agreement is a lease only and the county will not have right, title or interest in or to the vehicles except for the use of the vehicles as described in the agreement. The lease term commences on the delivery date of the vehicle and ending 60 months after the first full month rental payment date with an option to continue month-to-month for an unlimited period of time. During fiscal year 2016, the county leased ten vehicles with total lease payments of \$38,710. The lease payments required under the leasing agreement for the fiscal years ending June 30, 2017 and thereafter are as follows:

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 9. Lease Agreement (Continued)

Fiscal Year Ended June 30	Amount
2017	\$ 83,450
2018	83,450
2019	83,450
2020	83,450
2021	47,704
Total Lease Payments	<u>\$ 381,504</u>

Note 10. Long-term Debt

A. Kentucky Association of Counties (KACO) Lease Trust Program - Series 2008

On October 26, 2009, the Harlan County Fiscal Court entered into a financing agreement with Kentucky Association of Counties (KACO) leasing trust program in the amount of \$5,000,000 for the construction of sewer and water lines. Prior to receiving the lease proceeds, the county paid for the sewer and waterline construction expenses with monies from the county's general checking account. When the lease proceeds were received they were deposited into a leasing bank account at KACO and were used to make lease principal and interest payments on the lease through June 30, 2013, and subsequently through October 2013. The remaining balance of \$3,947,131 in the KACO leasing account was transferred to reimburse the general checking account on October 3, 2013. The principal and interest payments are due on the 20th day of each month. The obligation is scheduled to be paid off in June 2030. The principal balance as of June 30, 2016, is \$3,225,092. Debt service requirements for the fiscal years ending June 30, 2017 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 172,392	\$ 135,443
2018	179,851	127,984
2019	187,691	120,144
2020	195,705	112,131
2021	204,223	103,612
2022-2026	1,161,576	377,598
2027-2030	1,123,654	107,688
Totals	<u>\$ 3,225,092</u>	<u>\$ 1,084,600</u>

B. Kentucky Area Development District (KADD) Lease - 2007 Issue

On September 25, 2007, the Harlan County Fiscal Court entered into a Kentucky Area Development District (KADD) financing agreement, Series 2007, in the amount of \$2,860,000 for the construction of sewer lines. Principal payments are due annually on September 20 and interest payments are due semiannually on March 20 and September 20. The obligation is scheduled to be paid off in September 2037. The principal balance as of June 30, 2016 is \$2,440,000. Debt service requirements for the fiscal years ending June 30, 2017 and thereafter are as follows:

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 10. Long-term Debt (Continued)

B. Kentucky Area Development District (KADD) Lease - 2007 Issue (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 65,000	\$ 121,250
2018	65,000	118,325
2019	70,000	115,200
2020	75,000	111,756
2021	75,000	108,194
2022-2026	445,000	479,424
2027-2031	565,000	353,880
2032-2036	730,000	187,975
2037-2038	350,000	18,283
Totals	<u>\$ 2,440,000</u>	<u>\$ 1,614,287</u>

C. Detention Center General Obligation Bond - 2013 Series

On May 7, 2013, the county issued \$5,350,000 of general obligation bonds. These bonds were issued for the purpose of refinancing the general obligation bonds, Series 2004, for the acquisition, construction, and equipping of construction of the detention center facility. The bonds require two semiannual interest payments be made on March 1 and September 1 of each year beginning September 1, 2013. Principal payments are due September 1 of each year until September 1, 2034. As of June 30, 2016, the principal amount outstanding was \$4,995,000. Debt service requirements for the fiscal years ending June 30, 2017 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 210,000	\$ 130,538
2018	215,000	127,612
2019	215,000	123,850
2020	220,000	119,500
2021	225,000	115,050
2022-2026	1,215,000	498,781
2027-2031	1,390,000	319,164
2032-2035	1,305,000	86,693
Totals	<u>\$ 4,995,000</u>	<u>\$ 1,521,188</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 10. Long-term Debt (Continued)

D. Justice Center Public Properties Corporation Refunding Revenue Bonds – 2010 Series

On November 23, 2010, Harlan County Fiscal Court issued revenue bonds for the purpose of advanced refunding of the First Mortgage Revenue Bonds, Series 2002, associated with the justice center project. The Principal amount of the refunding bonds when issued was \$6,865,000 and interest varies from 2% to 3.5%. Interest payments are due each March 1 and each September 1 until March 2025. Principal payments are due with the March interest payment beginning in 2013. The principal balance at June 30, 2016 is \$5,105,000. Debt service requirements for the fiscal years ending June 30, 2017 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 495,000	\$ 166,850
2018	510,000	152,000
2019	530,000	136,700
2020	550,000	120,800
2021	560,000	104,300
2022-2025	2,460,000	218,750
Totals	<u>\$ 5,105,000</u>	<u>\$ 899,400</u>

E. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Refunding Revenue Bonds	\$ 5,590,000		\$ 485,000	\$ 5,105,000	\$ 495,000
General Obligation Bonds	5,205,000		210,000	4,995,000	210,000
Financing Obligations	5,890,271		225,179	5,665,092	237,392
Total Long-term Debt	<u>\$ 16,685,271</u>	<u>\$ 0</u>	<u>\$ 920,179</u>	<u>\$ 15,765,092</u>	<u>\$ 942,392</u>

Note 11. Short-Term Debt

On March 3, 2016, the Harlan County Fiscal Court entered into a short-term loan with the United States Department of Agriculture. The loan indebtedness is to be evidenced by County of Harlan General Obligation Notes (Flood Levee Recertification Project), Series 2016, in the principal amount of \$19,450 for the purpose of financing the cost of the recertification of the existing flood levee of the county. The principal and interest, at a rate of 3.25%, will be due on maturity. The principal amount as of June 30, 2016 was \$19,450.

Note 12. Contingent Liabilities

A. Bank of Harlan Line Of Credit For City of Cumberland

On October 18, 2012, the Harlan County Fiscal Court voted to enter into an agreement for a line of credit in the amount of \$500,000 on behalf of the City of Cumberland. The line of credit is intended to be used for financing federal grant projects located in the City of Cumberland. During fiscal year 2016, the fiscal court expended \$11,108 for interest payments and \$346 for late payments. As of June 30, 2016, the ending principal balance of the line of credit was \$176,374.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 12. Contingent Liabilities (Continued)

B. County Property Pledged As Collateral For Harlan County Outdoor Recreation Board Authority (HCORBA) Mortgage With Harlan Revitalization Association

On May 15, 2012, the Harlan County Fiscal Court, for and on behalf of the Harlan County Outdoor Recreation Board Authority (HCORBA) entered into a mortgage agreement with the Harlan Revitalization Association for \$175,000 for financing of a zip-line located at the Black Mountain Off Road Adventure Area at Evarts, Kentucky. This loan is secured by county owned property. The HCORBA is responsible for debt payments to the Harlan Revitalization Association. As of June 30, 2016, the ending principal balance of the loan is \$149,083.

Note 13. Conduit Debt

A. The Laurels Addition Project

On October 26, 2000, the Harlan County Fiscal Court adopted an ordinance authorizing the execution of an indenture of trust (indenture) between the Harlan County Fiscal Court (county) and the Bank of Harlan, Harlan, Kentucky, (trustee) under which bonds were authorized to be issued. Health Care Facility Revenue Bonds, Series 2000, were issued in the principal amount of \$1,530,000. The bonds are a limited obligation of the Harlan County Fiscal Court payable solely from annual rental payments received from Laurels, Inc. The proceeds of the issue were applied to the cost of constructing a 32 bed personal care facility immediately adjacent to the existing Laurels Nursing Home. The ordinance also authorizes the execution of a lease agreement by and among the county, as lessor, and the Laurels, Inc., as lessee. Under the lease, Laurels, Inc. will lease the project from the county for the term of the bonds, at annual rentals sufficient to pay the principal and interest requirements on the bonds as the same become due. The county pledged to provide a standby guarantee on the debt service for an initial term ending June 30, 2001. The bonds and related interest do not represent or constitute an indebtedness of Harlan County Fiscal Court. As of June 30, 2016, the outstanding principal balance due was \$1,100,000.

B. Black Mountain Utility District - Assignment of Deposit Account

On June 16, 2015, the Harlan County Fiscal Court entered into an assignment of deposit account with the Black Mountain Utility District, Baxter, KY and the Bank of Harlan (Harlan, KY) in the amount of \$150,000. This assignment of deposit was executed among the Harlan County Fiscal Court (grantor); the Black Mountain Utility District (borrower); and the Bank of Harlan (lender). For valuable consideration, the grantor assigns and grants to the lender a security interest in the collateral, including without limitation the deposit account and/or certificated deposit account, to secure the indebtedness and agrees that the lender shall have the rights stated in this agreement with respect to the collateral, in addition to all other rights which the lender may have by law. While this agreement is in effect, the lender may retain the rights to possession of the collateral, together with any and all evidence of the collateral, such as certificates or passbooks. The agreement will remain in effect until (a) there no longer is any indebtedness owing to lender; (b) all other obligations secured by this agreement have been fulfilled; and (c) the grantor, in writing, has requested form the lender a release of this agreement. As of June 30, 2016, the balance in the assignment of deposit account was \$150,000.

Note 14. Flexible Spending Arrangement

The Harlan County Fiscal Court has established a flexible spending arrangement to provide employees an additional health benefit. The arrangement provides for employee elected pre-tax withholdings, to be maintained by the treasurer, and used to reimburse medical related expenses. The county does not contribute to the employees accounts. Employees are required to provide the treasurer documentation of expenses prior to receiving reimbursement. As of June 30, 2016, the county maintained \$0 for employees.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 15. 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 (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous duty positions in the county. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

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

The county's contribution for FY 2014 was \$680,734, FY 2015 was \$614,902, and FY 2016 was \$604,827.

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

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

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

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%

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 15. Employee Retirement System (Continued)

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

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/employers/GASB/Pages/GASB-Library.aspx>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 16. Deferred Compensation

On March 1, 2003, the Harlan 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 permit 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 17. Insurance

For the fiscal year ended June 30, 2016, Harlan 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 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.

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,411,000	\$ 3,411,000	\$ 4,764,674	\$ 1,353,674
In Lieu Tax Payments	30	30	8,090	8,060
Excess Fees	366	366	25,000	24,634
Licenses and Permits	167,000	167,000	161,805	(5,195)
Intergovernmental	1,201,950	1,201,950	1,793,582	591,632
Charges for Services	1,385,000	1,385,000	1,299,036	(85,964)
Miscellaneous	176,000	176,000	578,831	402,831
Interest	8,000	8,000	7,452	(548)
Total Receipts	6,349,346	6,349,346	8,638,470	2,289,124
DISBURSEMENTS				
General Government	2,585,600	2,703,078	2,412,231	290,847
Protection to Persons and Property	153,100	192,200	136,656	55,544
General Health and Sanitation	1,710,000	1,610,950	1,427,511	183,439
Social Services	533,000	325,388	28,156	297,232
Recreation and Culture	40,000	53,800	25,773	28,027
Airport		141,075	106,669	34,406
Debt Service	30,000	107,364	97,568	9,796
Capital Projects		10,000	3,933	6,067
Administration	1,578,996	1,486,841	1,369,666	117,175
Total Disbursements	6,630,696	6,630,696	5,608,163	1,022,533
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(281,350)</u>	<u>(281,350)</u>	<u>3,030,307</u>	<u>3,311,657</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	202,528	202,528	200,470	(2,058)
Transfers To Other Funds	(774,325)	(774,325)	(378,523)	395,802
Borrowed Money			19,450	19,450
Total Other Adjustments to Cash (Uses)	<u>(571,797)</u>	<u>(571,797)</u>	<u>(158,603)</u>	<u>413,194</u>
Net Change in Fund Balance	(853,147)	(853,147)	2,871,704	3,724,851
Fund Balance Beginning	<u>853,147</u>	<u>853,147</u>	<u>5,323,617</u>	<u>4,470,470</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,195,321</u>	<u>\$ 8,195,321</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 2,000	\$ 2,000	\$ 1,693	\$ (307)
Intergovernmental	1,696,746	1,696,746	2,077,064	380,318
Miscellaneous			8,581	8,581
Interest	2,000	2,000	5,279	3,279
Total Receipts	<u>1,700,746</u>	<u>1,700,746</u>	<u>2,092,617</u>	<u>391,871</u>
DISBURSEMENTS				
Roads	2,102,850	2,141,300	1,954,184	187,116
Administration	566,686	528,236	383,590	144,646
Total Disbursements	<u>2,669,536</u>	<u>2,669,536</u>	<u>2,337,774</u>	<u>331,762</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(968,790)</u>	<u>(968,790)</u>	<u>(245,157)</u>	<u>723,633</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	300,000	300,000	267,936	(32,064)
Transfers To Other Funds	(202,528)	(202,528)	(200,470)	2,058
Total Other Adjustments to Cash (Uses)	<u>97,472</u>	<u>97,472</u>	<u>67,466</u>	<u>(30,006)</u>
Net Change in Fund Balance	(871,318)	(871,318)	(177,691)	693,627
Fund Balance - Beginning	<u>871,318</u>	<u>871,318</u>	<u>4,025,609</u>	<u>3,154,291</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,847,918</u>	<u>\$ 3,847,918</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	JAIL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 1,839,500	\$ 2,019,500	\$ 2,091,238	\$ 71,738
Charges for Services	29,000	29,000	41,249	12,249
Miscellaneous	162,800	162,800	152,705	(10,095)
Total Receipts	<u>2,031,300</u>	<u>2,211,300</u>	<u>2,285,192</u>	<u>73,892</u>
DISBURSEMENTS				
Protection to Persons and Property	1,896,000	2,136,000	2,050,417	85,583
Administration	709,625	649,625	632,205	17,420
Total Disbursements	<u>2,605,625</u>	<u>2,785,625</u>	<u>2,682,622</u>	<u>103,003</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(574,325)</u>	<u>(574,325)</u>	<u>(397,430)</u>	<u>176,895</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	574,325	574,325	378,523	(195,802)
Total Other Adjustments to Cash (Uses)	<u>574,325</u>	<u>574,325</u>	<u>378,523</u>	<u>(195,802)</u>
Net Change in Fund Balance			(18,907)	(18,907)
Fund Balance - Beginning			<u>44,731</u>	<u>44,731</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 25,824</u>	<u>\$ 25,824</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,219,000	\$ 1,219,000	\$ 1,044,300	\$ (174,700)
Miscellaneous			2,905	2,905
Interest	1,200	1,200	1,778	578
Total Receipts	<u>1,220,200</u>	<u>1,220,200</u>	<u>1,048,983</u>	<u>(171,217)</u>
DISBURSEMENTS				
General Government	97,000	94,000	42,125	51,875
Protection to Persons and Property	75,000	75,000	58,692	16,308
General Health and Sanitation	279,100	289,520	270,338	19,182
Recreation and Culture	255,000	317,800	280,442	37,358
Administration	271,200	200,980	128,345	72,635
Total Disbursements	<u>977,300</u>	<u>977,300</u>	<u>779,942</u>	<u>197,358</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>242,900</u>	<u>242,900</u>	<u>269,041</u>	<u>26,141</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(300,000)</u>	<u>(300,000)</u>	<u>(267,936)</u>	<u>32,064</u>
Total Other Adjustments to Cash (Uses)	<u>(300,000)</u>	<u>(300,000)</u>	<u>(267,936)</u>	<u>32,064</u>
Net Change in Fund Balance	(57,100)	(57,100)	1,105	58,205
Fund Balance Beginning	<u>57,100</u>	<u>57,100</u>	<u>1,812,154</u>	<u>1,755,054</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,813,259</u>	<u>\$ 1,813,259</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	FEDERAL GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 250,000	\$ 250,000	\$ 252,500	\$ 2,500
Interest	15	15	11	(4)
Total Receipts	<u>250,015</u>	<u>250,015</u>	<u>252,511</u>	<u>2,496</u>
DISBURSEMENTS				
General Health and Sanitation	366,015	366,015	252,500	113,515
Total Disbursements	<u>366,015</u>	<u>366,015</u>	<u>252,500</u>	<u>113,515</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(116,000)</u>	<u>(116,000)</u>	<u>11</u>	<u>116,011</u>
Net Change in Fund Balance	(116,000)	(116,000)	11	116,011
Fund Balance - Beginning	<u>116,000</u>	<u>116,000</u>	<u>116,078</u>	<u>78</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 116,089</u>	<u>\$ 116,089</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	SINKING FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Miscellaneous	\$		\$ 82,274	\$ 82,274
Interest		1,000	24	(976)
Total Receipts		<u>1,000</u>	<u>82,298</u>	<u>81,298</u>
DISBURSEMENTS				
Debt Service		842,000	835,268	6,732
Total Disbursements		<u>842,000</u>	<u>835,268</u>	<u>6,732</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(841,000)</u>	<u>(752,970)</u>	<u>88,030</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		200,000		(200,000)
Total Other Adjustments to Cash (Uses)		<u>200,000</u>		<u>(200,000)</u>
Net Change in Fund Balance		(641,000)	(752,970)	(111,970)
Fund Balance Beginning		<u>641,000</u>	<u>852,555</u>	<u>211,555</u>
Fund Balance - Ending	\$	<u>0</u>	\$ 99,585	\$ 99,585

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 2,000,000	\$ 2,000,000	\$ 2,081,277	\$ 81,277
Total Receipts	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,081,277</u>	<u>81,277</u>
DISBURSEMENTS				
General Government	25,000	13,000	11,660	1,340
Protection to Persons and Property	150,000	90,000	55,471	34,529
General Health and Sanitation	825,000	2,429,000	1,861,847	567,153
Social Services	200,000	143,000	100,159	42,841
Recreation and Culture	50,000	140,000	97,016	42,984
Roads	150,000			
Debt Service	800,000			
Capital Projects	100,000	85,000	63,457	21,543
Total Disbursements	<u>2,300,000</u>	<u>2,900,000</u>	<u>2,189,610</u>	<u>710,390</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(300,000)</u>	<u>(900,000)</u>	<u>(108,333)</u>	<u>791,667</u>
Net Change in Fund Balance	(300,000)	(900,000)	(108,333)	791,667
Fund Balance Beginning	<u>300,000</u>	<u>900,000</u>	<u>3,430,287</u>	<u>2,530,287</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,321,954</u>	<u>\$ 3,321,954</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	AIRPORT FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Miscellaneous	\$	\$ 1,468,381	\$ 700,000	\$ (768,381)
Total Receipts		1,468,381	700,000	(768,381)
DISBURSEMENTS				
Airports		1,468,381	57,678	1,410,703
Total Disbursements		1,468,381	57,678	1,410,703
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			642,322	642,322
Net Change in Fund Balance			642,322	642,322
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 642,322	\$ 642,322

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	EMERGENCY 911 FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 120,000	\$ 120,000	\$ 125,137	\$ 5,137
Intergovernmental	150,000	150,000	155,067	5,067
Interest	150	150	94	(56)
Total Receipts	<u>270,150</u>	<u>270,150</u>	<u>280,298</u>	<u>10,148</u>
DISBURSEMENTS				
Protection to Persons and Property	361,000	410,100	331,850	78,250
Administration	60,032	10,932	5,594	5,338
Total Disbursements	<u>421,032</u>	<u>421,032</u>	<u>337,444</u>	<u>83,588</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(150,882)</u>	<u>(150,882)</u>	<u>(57,146)</u>	<u>93,736</u>
Net Change in Fund Balance	(150,882)	(150,882)	(57,146)	93,736
Fund Balance Beginning	<u>150,882</u>	<u>150,882</u>	<u>594,418</u>	<u>443,536</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 537,272</u>	<u>\$ 537,272</u>

HARLAN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

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 Governmental 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.

HARLAN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

HARLAN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,057,234	\$	\$	\$ 2,057,234
Buildings	20,972,433			20,972,433
Vehicles and Equipment	3,271,864	231,542	253,331	3,250,075
Other Equipment	1,083,268	15,845		1,099,113
Infrastructure	48,402,193	464,125		48,866,318
Jail Commissary Vehicles and Machinery	50,616			50,616
Total Capital Assets	\$ 75,837,608	\$ 711,512	\$ 253,331	\$ 76,295,789

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

June 30, 2016

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings	\$ 50,000	10-75
Building Improvements	\$ 50,000	10-40
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5
Infrastructure	\$ 30,000	10-50

**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***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dan Mosley, Harlan County Judge/Executive
Members of the Harlan 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 Harlan County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Harlan County Fiscal Court's financial statement and have issued our report thereon dated May 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Harlan County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Harlan County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Harlan 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 Findings and Responses, 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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002 to be material weaknesses.

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 Schedule of Findings and Responses as item 2016-003 to be a significant deficiency.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harlan 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 Schedule of Findings and Responses as items 2016-001 and 2016-002.

Views of Responsible Official and Planned Corrective Action

Harlan County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 9, 2017

**HARLAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2016

HARLAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections

The Harlan County Fiscal Court has failed to implement controls to ensure compliance with requirements of the Solid Waste Franchise Renewal Agreement. The following controls were not in place for fiscal year 2016:

- The fiscal court does not have written agreements with districts for garbage collections.
- The fiscal court does not receive delinquent list for all outstanding collections.
- The fiscal court does not receive sufficient documentation of garbage fees collected by all the utility districts.

As of June 30, 2016, the fiscal court is aware of approximately \$426,442 in accounts receivable for collection of residential and commercial solid waste throughout Harlan County. These accounts receivable also include 1,030 accounts that are past due. Utility districts do not provide monthly collection reports or lists of delinquent residents to the fiscal court. As such, the fiscal court cannot verify the amount of gross residential garbage removal fees collected by the districts or the amount of garbage removal fees remitted to the fiscal court. The lack of delinquent lists prevents the fiscal court from effectively monitoring uncollected revenues. Also, the fiscal court cannot provide a listing of delinquent residential customers to the company with the solid waste franchise.

The Harlan County Fiscal Court collects fees for garbage collections as allowed by KRS 109.056(2) and has chosen to collect these fees under the provisions of KRS 109.056(3). KRS 109.056(3) states the fiscal court “may enter into an agreement with other utilities either public or private to collect such charges.” Good internal controls require these agreements be written to provide all parties with the terms of the agreements. These written agreements should include the supporting documentation to be provided to the fiscal court by third parties for fees collected and delinquent. The Solid Waste Franchise Renewal Agreement requires the fiscal court to provide quarterly to the company with solid waste franchise a list of residential customers with delinquent accounts that are subject to having pickup services terminated.

We recommend the fiscal court enter into written agreements with the utility districts detailing recordkeeping requirements for waste collections, monthly financial reports, and delinquent listings. When procedures are implemented to create a list of delinquent customers, the fiscal court should provide the list to the county attorney for potential collection efforts and the company with the solid waste franchise for potential termination of services, as necessary.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The fiscal court, as of May 2017, now has the ability to view all delinquent accounts and will begin receiving sufficient documentation of garbage fees collected by all the utility districts. The court will work with the County Attorney and the districts to prepare a written agreement and enter into a contract with all districts for garbage collection. The Solid Waste Ordinance mandates that all residents and commercial customers are required to have garbage service, and the county will develop and implement a plan to better address delinquent account customers.

**HARLAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Harlan County Fiscal Court Insured Assets For Other Legally Separate Entities

The assets of the Tucker-Guthrie Airport, Sleepy Hollow Golf Course, and the Harlan County Outdoor Recreation Board Authority (HCORBA) are included on the fiscal court's insurance policy. Assets were included on the fiscal court's insurance policy that were not legally owned by the fiscal court. The fiscal court includes the assets of these entities on the county's insurance policy because the entities lack the financial ability to maintain insurance on the assets. As a result of adding these assets, the fiscal court may have had to pay higher premiums than necessary.

The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires the fiscal court to "determine the accuracy of insurance coverage" for capital assets. Effective internal controls should ensure taxpayer funds are used to only insure fiscal court assets. According to the fiscal court's insurance provider, the fiscal court cannot legally insure items it does not own.

In order to obtain complete and accurate insurance coverage and to avoid overpaying premiums, we recommend the fiscal court work with the Harlan County Attorney and the fiscal court's insurance provider to determine what can be insured by the fiscal court. Any assets that cannot be insured should be removed from the fiscal court's insurance policy.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The fiscal court did provide insurance for several assets of boards that are component units of the county. As stated, the insurance was provided because the entities were not able to purchase the insurance themselves. It has been the court's decision to maintain insurance on these assets, as it is much less expensive than replacing the assets insured. For example, if the county had not insured the Terminal building at the Tucker Guthrie Airport during the winter storm of 2015, the county would have had to expend approximately \$1.2 million to build a new facility. However, as a result of insuring the property, the county only had to pay a \$500 deductible. The county has spoken to its insurance provider and was given assurance that any claims on the assets would be paid. The county has also worked with the staff of the Auditor of Public Accounts and the County Attorney to determine the most effective way to handle future insurance coverage for these entities.

2016-003 The Harlan County Fiscal Court Failed To Improve Internal Controls Over The Payroll Process

The Harlan County Fiscal Court failed to improve internal controls over the payroll process for timesheets and the flexible spending health plan. The following control deficiencies were noted:

- Two out of 16 timesheets tested were not signed by supervisor to verify time worked. These two timesheets were for employees working at the jail.
- One employee enrolled in the flexible spending health plan was reimbursed \$600 for fiscal year 2016, which was the balance in his flexible spending health plan account for the year. The employee had submitted receipts for health expenses totaling \$569 leaving \$31 that was not documented by receipts.

A lack of adequate controls and oversight of employee timesheets and the flexible spending health plan resulted in approval not being documented by the employee's supervisor and a lack of sufficient documentation for flexible spending health plan reimbursements. Without oversight, supervisors may not be aware of the time charged by the employees. The lack of proper internal controls for payroll and the flexible spending health plan increase the risk that incorrect payroll information will be processed by the fiscal court and that errors will not be identified and corrected.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Harlan County Fiscal Court Failed To Improve Internal Controls Over The Payroll Process
(Continued)

Good internal controls dictate that all timesheets are signed by employees and the supervisor. Also, reimbursements made from the flexible spending health plan should be properly supported with receipts for the health expenses submitted for reimbursement.

In order to strengthen internal controls over payroll, we recommend the fiscal court implement procedures to ensure that timesheets are maintained and properly documented with supervisor's approval. We also recommend that each flexible spending health plan reimbursement have supporting documentation of the health expense to be reimbursed.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The fiscal court has now implemented a new software program for payroll tracking and is requiring employees and supervisors to sign all timesheets. The employee enrolled in the flex spending health plan was reimbursed his full amount of flex spending withheld, so that the payroll liabilities ledger would not affect the General Fund cash ledger balance for the end of the fiscal year. The employee did turn in the remaining amount of receipts necessary to document the \$31 in expenditures, however, it was after the close of the fiscal year. Due to the limited amount of employees participating in this plan, the Judge Executive will recommend to the fiscal court to remove this program in the future.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

HARLAN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2016**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM
HARLAN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

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



County Judge/Executive



County Treasurer

