

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

**For The Year Ended  
June 30, 2018**



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

To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The 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, 2018, 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.



To the People of Kentucky  
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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, 2018, 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, 2018, 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, Capital Asset Schedule, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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, Capital Asset Schedule, and Schedule of Expenditures of Federal Awards 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, Capital Asset Schedule, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
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Members of the Harlan County Fiscal Court

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018, 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 Questioned Costs included herein, which discusses the following report findings:

- 2018-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections
- 2018-002 The Jailer Did Not Comply With Bidding Requirements Set Forth In KRS 424.260

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

December 7, 2018

**HARLAN COUNTY OFFICIALS****For The Year Ended June 30, 2018****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
Colby Goss	Deputy Judge
Carolyn Smith	Administrative Assistant
Alice Hensley	Chief Financial Officer
Stacey Madon	Account Payables
Keri Stevens	Payroll Clerk



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

**For The Year Ended June 30, 2018**

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

**For The Year Ended June 30, 2018**

	<b>Budgeted Funds</b>			
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>RECEIPTS</b>				
Taxes	\$ 3,739,434	\$	\$	\$
In Lieu Tax Payments	2	2,140		
Licenses and Permits	158,900			
Intergovernmental	2,372,584	1,929,998	2,059,925	1,085,053
Charges for Services	1,421,827		33,473	
Miscellaneous	416,769	24,495	139,081	1,200
Interest	13,135	7,692		2,228
Total Receipts	<u>8,122,651</u>	<u>1,964,325</u>	<u>2,232,479</u>	<u>1,088,481</u>
<b>DISBURSEMENTS</b>				
General Government	2,483,557			142,520
Protection to Persons and Property	342,975	5,590	2,348,877	56,664
General Health and Sanitation	1,705,856			325,336
Social Services	44,544			
Recreation and Culture	390,145			402,954
Roads	50,000	1,796,599		
Airports	807,741			
Debt Service	152,297	84,730		
Capital Projects	2,000			
Administration	1,570,147	327,484	695,504	203,772
Total Disbursements	<u>7,549,262</u>	<u>2,214,403</u>	<u>3,044,381</u>	<u>1,131,246</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>573,389</u>	<u>(250,078)</u>	<u>(811,902)</u>	<u>(42,765)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	200,000	270,396	731,672	80,843
Transfers To Other Funds	(1,292,672)	(200,000)		(270,396)
Total Other Adjustments to Cash (Uses)	<u>(1,092,672)</u>	<u>70,396</u>	<u>731,672</u>	<u>(189,553)</u>
Net Change in Fund Balance	(519,283)	(179,682)	(80,230)	(232,318)
Fund Balance - Beginning (Restated)	8,884,946	4,273,086	157,434	883,813
Fund Balance - Ending	<u>\$ 8,365,663</u>	<u>\$ 4,093,404</u>	<u>\$ 77,204</u>	<u>\$ 651,495</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 5,894,154	\$ 1,599,275	\$ 225,238	\$ 214,716
Plus: Deposits In Transit	250			
Plus: Receivable	13,504			
Less: Outstanding Checks and Liability	(468,045)	(24,070)	(148,034)	(18,676)
Certificates of Deposit	2,925,800	2,518,199		455,455
Fund Balance - Ending	<u>\$ 8,365,663</u>	<u>\$ 4,093,404</u>	<u>\$ 77,204</u>	<u>\$ 651,495</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, 2018**  
**(Continued)**

<b>Budgeted Funds</b>				
<b>Federal Grants Fund</b>	<b>Sinking Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Airport Fund</b>	<b>Emergency 911 Fund</b>
\$	\$	\$	\$	\$ 110,716
220,150		925,465		244,398
	10,323		20,222	
11	70			101
<u>220,161</u>	<u>10,393</u>	<u>925,465</u>	<u>20,222</u>	<u>355,215</u>
		68,268		363,284
220,150		417,372		
		59,531		
		152,839		
			893,738	
	837,499			
		25,772		
				6,815
<u>220,150</u>	<u>837,499</u>	<u>723,782</u>	<u>893,738</u>	<u>370,099</u>
		68,268		363,284
		417,372		
		59,531		
		152,839		
			893,738	
	837,499			
		25,772		
				6,815
<u>220,150</u>	<u>837,499</u>	<u>723,782</u>	<u>893,738</u>	<u>370,099</u>
		68,268		363,284
		417,372		
		59,531		
		152,839		
			893,738	
	837,499			
		25,772		
				6,815
<u>220,150</u>	<u>837,499</u>	<u>723,782</u>	<u>893,738</u>	<u>370,099</u>
11	(827,106)	201,683	(873,516)	(14,884)
	1,061,000			
		(580,843)		
	<u>1,061,000</u>	<u>(580,843)</u>		
11	233,894	(379,160)	(873,516)	(14,884)
116,101	44,046	3,327,310	1,005,422	507,280
<u>\$ 116,112</u>	<u>\$ 277,940</u>	<u>\$ 2,948,150</u>	<u>\$ 131,906</u>	<u>\$ 492,396</u>
\$ 116,112	\$ 277,940	\$ 2,976,602	\$ 147,489	\$ 497,905
		(28,452)	(15,583)	(5,509)
<u>\$ 116,112</u>	<u>\$ 277,940</u>	<u>\$ 2,948,150</u>	<u>\$ 131,906</u>	<u>\$ 492,396</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, 2018**  
**(Continued)**

	<u>Unbudgeted Funds</u>		
	<b>Justice Center</b>		
	<b>Public Properties</b>	<b>Jail</b>	<b>Total</b>
	<b>Corporation</b>	<b>Commissary</b>	<b>Funds</b>
	<b>Fund</b>	<b>Fund</b>	
<b>RECEIPTS</b>			
Taxes	\$	\$	\$ 3,850,150
In Lieu Tax Payments			2,142
Licenses and Permits			158,900
Intergovernmental	663,500		9,501,073
Charges for Services			1,455,300
Miscellaneous		358,202	970,292
Interest	25		23,262
Total Receipts	<u>663,525</u>	<u>358,202</u>	<u>15,961,119</u>
<b>DISBURSEMENTS</b>			
General Government			2,626,077
Protection to Persons and Property			3,185,658
General Health and Sanitation			2,668,714
Social Services			104,075
Recreation and Culture		376,297	1,322,235
Roads			1,846,599
Airports			1,701,479
Debt Service	663,500		1,738,026
Capital Projects			27,772
Administration			2,803,722
Total Disbursements	<u>663,500</u>	<u>376,297</u>	<u>18,024,357</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>25</u>	<u>(18,095)</u>	<u>(2,063,238)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds			2,343,911
Transfers To Other Funds			(2,343,911)
Total Other Adjustments to Cash (Uses)			<u></u>
Net Change in Fund Balance	25	(18,095)	(2,063,238)
Fund Balance - Beginning (Restated)	<u>2,552</u>	<u>119,403</u>	<u>19,321,393</u>
Fund Balance - Ending	<u>\$ 2,577</u>	<u>\$ 101,308</u>	<u>\$ 17,258,155</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 2,577	\$ 101,308	\$ 12,053,316
Plus: Deposits In Transit			250
Plus: Receivable			13,504
Less: Outstanding Checks			(708,369)
Certificates of Deposit			<u>5,899,454</u>
Fund Balance - Ending	<u>\$ 2,577</u>	<u>\$ 101,308</u>	<u>\$ 17,258,155</u>

The accompanying notes are an integral part of the financial statement

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TO THE FINANCIAL STATEMENT**

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**HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2018**

**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 are required components of the reporting entity.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the 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, 2018**  
**(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. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required 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, 2018**  
**(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 public facilities construction corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**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, 2018**  
**(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 Organization**

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 organizations governing board. 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. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2018.

	General Fund	Road Fund	LGEA Fund	LGED Fund	Total Transfers In
General Fund	\$	\$ 200,000	\$	\$	\$ 200,000
Road Fund			270,396		270,396
Jail Fund	731,672				731,672
LGEA Fund				80,843	80,843
Sinking Fund	561,000			500,000	1,061,000
Total Transfers Out	<u>\$ 1,292,672</u>	<u>\$ 200,000</u>	<u>\$ 270,396</u>	<u>\$ 580,843</u>	<u>\$ 2,343,911</u>

Reason for transfers:

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

**Note 4. Agency Trust Funds**

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

The fiscal court has the following agency trust funds:

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, 2018, was \$226,493.

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, 2018, 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, 2018, 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, 2018, was \$5,085.

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2018, was \$4,869.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**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 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.

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 of 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, 2018.

**Note 6. Reserved For Youth Activities And Facilities - Certificate Of Deposit**

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. During September 2016, funds were transferred into a certificate of deposit. The balance in the certificate of deposit as of June 30, 2018, was \$508,397.

**Note 7. 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 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 8. Lease Agreement**

On July 7, 2015, the Harlan County Fiscal Court entered into a lease agreement with Enterprise FM Trust to lease several vehicles for use by the Harlan County Fiscal Court. Enterprise FM Trust 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 ends either 60 or 48 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 2018, the county leased 15 vehicles with total lease payments of \$117,874. The lease payments required under the leasing agreement for the fiscal years ending June 30, 2019, and thereafter are as follows:

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 8. Lease Agreement (Continued)**

Fiscal Year Ended June 30	Amount
2019	\$ 117,874
2020	117,874
2021	77,834
2022	21,585
Total Lease Payments	<u>\$ 335,167</u>

**Note 9. 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, 2018, is \$2,906,359. Debt service requirements for the fiscal years ending June 30, 2019, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Interest
2019	\$ 154,681	\$ 156,874
2020	163,245	148,310
2021	172,529	139,026
2022	182,261	129,294
2023	192,606	118,949
2024-2028	1,138,377	419,400
2029-2030	902,660	72,774
Totals	<u>\$ 2,906,359</u>	<u>\$ 1,184,627</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 9. Long-term Debt (Continued)**

**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, 2018, is \$2,310,000. Debt service requirements for the fiscal years ending June 30, 2019, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 70,000	\$ 115,200
2020	75,000	111,756
2021	75,000	108,194
2022	80,000	104,473
2023	85,000	100,471
2024-2028	485,000	433,175
2029-2033	630,000	292,778
2034-2038	810,000	108,665
Totals	<u>\$ 2,310,000</u>	<u>\$ 1,374,712</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, 2018, the principal amount outstanding was \$4,570,000. Debt service requirements for the fiscal years ending June 30, 2019, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 215,000	\$ 123,850
2020	220,000	119,500
2021	225,000	115,050
2022	230,000	110,500
2023	235,000	105,850
2024-2028	1,275,000	434,981
2029-2033	1,495,000	231,125
2034-2035	675,000	22,181
Totals	<u>\$ 4,570,000</u>	<u>\$ 1,263,037</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 9. Long-term Debt (Continued)**

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

On November 23, 2010, the 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 percent to 3.5 percent. 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, 2018, is \$4,100,000. Debt service requirements for the fiscal years ending June 30, 2019, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 530,000	\$ 136,700
2020	550,000	120,800
2021	560,000	104,300
2022	585,000	86,100
2023	605,000	65,625
2024-2028	1,270,000	67,025
Totals	<u>\$ 4,100,000</u>	<u>\$ 580,550</u>

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

Long-term debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Refunding Revenue Bonds	\$ 4,610,000	\$	\$ 510,000	\$ 4,100,000	\$ 530,000
General Obligation Bonds	4,785,000		215,000	4,570,000	215,000
Financing Obligations	5,427,700		211,341	5,216,359	224,681
Total Long-term Debt	<u>\$ 14,822,700</u>	<u>\$ 0</u>	<u>\$ 936,341</u>	<u>\$ 13,886,359</u>	<u>\$ 969,681</u>

**Note 10. Contingent Liability**

**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, 2018, the ending principal balance of the loan was \$136,155.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 11. 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 the Harlan County Fiscal Court. As of June 30, 2018, the outstanding principal balance due was \$1,005,000.

**B. Black Mountain Utility District - Collateral 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, Kentucky in the amount of \$150,000. This assignment of deposit was renewed on July 28, 2016, and was executed among the Harlan County Fiscal Court (grantor); the Black Mountain Utility District (borrower); and the Bank of Harlan (lender). On August 31, 2017, the agreement was renewed as a Commercial Security Agreement between the Harlan County Fiscal Court (collateral owner), the Black Mountain Utility District (debtor); and Monticello Banking Company (lender). The specific collateral covered by this agreement is the certificate of deposit totaling \$150,000 held by the Monticello Banking Company for the Harlan County Fiscal Court. As of June 30, 2018, the balance in the certificate of deposit account held for collateral was \$150,000.

**Note 12. 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, 2018, the county maintained \$0 for employees.

**Note 13. Employee Retirement System**

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

The county's contribution for FY 2016 was \$604,827, FY 2017 was \$677,144, and FY 2018 was \$706,798.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 13. Employee Retirement System (Continued)**

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 accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 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 KRS Board of Directors 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 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

The county's contribution rate for nonhazardous employees was 19.18 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.



**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 13. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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 proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. 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.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 14. Deferred Compensation**

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 the 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 15. Insurance**

For the fiscal year ended June 30, 2018, the Harlan County Fiscal Court 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.

**Note 16. Prior Period Adjustments**

The beginning balances of the Local Government Economic Assistance Fund and the Emergency 911 Fund were restated by \$1 each. In addition, the Jail Commissary Fund beginning balance was restated by \$800 due to an unrecorded liability from the prior year.

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

**For The Year Ended June 30, 2018**

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

**For The Year Ended June 30, 2018**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 3,834,000	\$ 3,834,000	\$ 3,739,434	\$ (94,566)
In Lieu Tax Payments	30	30	2	(28)
Excess Fees	366	366		(366)
Licenses and Permits	159,000	159,000	158,900	(100)
Intergovernmental	2,307,550	3,326,050	2,372,584	(953,466)
Charges for Services	1,368,000	1,368,000	1,421,827	53,827
Miscellaneous	210,000	210,000	416,769	206,769
Interest	9,000	9,000	13,135	4,135
Total Receipts	<u>7,887,946</u>	<u>8,906,446</u>	<u>8,122,651</u>	<u>(783,795)</u>
<b>DISBURSEMENTS</b>				
General Government	2,610,700	2,714,644	2,483,557	231,087
Protection to Persons and Property	209,200	362,145	342,975	19,170
General Health and Sanitation	1,570,500	1,783,594	1,705,856	77,738
Social Services	3,130,000	2,852,800	44,544	2,808,256
Recreation and Culture	433,000	585,521	390,145	195,376
Roads	68,000	52,335	50,000	2,335
Airports	300,000	1,032,992	807,741	225,251
Debt Service	154,000	158,790	152,297	6,493
Capital Projects		2,000	2,000	
Administration	1,599,416	1,613,495	1,570,147	43,348
Total Disbursements	<u>10,074,816</u>	<u>11,158,316</u>	<u>7,549,262</u>	<u>3,609,054</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,186,870)</u>	<u>(2,251,870)</u>	<u>573,389</u>	<u>2,825,259</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	200,000	200,000	200,000	
Transfers To Other Funds	(1,300,000)	(1,500,000)	(1,292,672)	207,328
Total Other Adjustments to Cash (Uses)	<u>(1,100,000)</u>	<u>(1,300,000)</u>	<u>(1,092,672)</u>	<u>207,328</u>
Net Change in Fund Balance	(3,286,870)	(3,551,870)	(519,283)	3,032,587
Fund Balance - Beginning	<u>3,286,870</u>	<u>3,551,870</u>	<u>8,884,946</u>	<u>5,333,076</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,365,663</u>	<u>\$ 8,365,663</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
In Lieu Tax Payments	\$ 2,000	\$ 2,000	\$ 2,140	\$ 140
Intergovernmental	1,766,194	1,766,194	1,929,998	163,804
Miscellaneous			24,495	24,495
Interest	5,000	5,000	7,692	2,692
Total Receipts	<u>1,773,194</u>	<u>1,773,194</u>	<u>1,964,325</u>	<u>191,131</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property		5,590	5,590	
Roads	1,868,550	1,957,050	1,796,599	160,451
Debt Service	86,000	86,000	84,730	1,270
Administration	453,150	359,060	327,484	31,576
Total Disbursements	<u>2,407,700</u>	<u>2,407,700</u>	<u>2,214,403</u>	<u>193,297</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(634,506)</u>	<u>(634,506)</u>	<u>(250,078)</u>	<u>384,428</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	300,000	300,000	270,396	(29,604)
Transfers To Other Funds	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	
Total Other Adjustments to Cash (Uses)	<u>100,000</u>	<u>100,000</u>	<u>70,396</u>	<u>(29,604)</u>
Net Change in Fund Balance	(534,506)	(534,506)	(179,682)	354,824
Fund Balance - Beginning	<u>534,506</u>	<u>534,506</u>	<u>4,273,086</u>	<u>3,738,580</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,093,404</u>	<u>\$ 4,093,404</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,212,000	\$ 2,212,000	\$ 2,059,925	\$ (152,075)
Charges for Services	31,000	31,000	33,473	2,473
Miscellaneous	136,500	136,500	139,081	2,581
Total Receipts	<u>2,379,500</u>	<u>2,379,500</u>	<u>2,232,479</u>	<u>(147,021)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,122,500	2,394,193	2,348,877	45,316
Administration	777,300	705,607	695,504	10,103
Total Disbursements	<u>2,899,800</u>	<u>3,099,800</u>	<u>3,044,381</u>	<u>55,419</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(520,300)</u>	<u>(720,300)</u>	<u>(811,902)</u>	<u>(91,602)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	513,000	713,000	731,672	18,672
Total Other Adjustments to Cash (Uses)	<u>513,000</u>	<u>713,000</u>	<u>731,672</u>	<u>18,672</u>
Net Change in Fund Balance	(7,300)	(7,300)	(80,230)	(72,930)
Fund Balance - Beginning	<u>7,300</u>	<u>7,300</u>	<u>157,434</u>	<u>150,134</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 77,204</u>	<u>\$ 77,204</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,240,000	\$ 1,240,000	\$ 1,085,053	\$ (154,947)
Miscellaneous			1,200	1,200
Interest	1,200	1,200	2,228	1,028
Total Receipts	<u>1,241,200</u>	<u>1,241,200</u>	<u>1,088,481</u>	<u>(152,719)</u>
<b>DISBURSEMENTS</b>				
General Government	237,000	238,790	142,520	96,270
Protection to Persons and Property	75,000	75,000	56,664	18,336
General Health and Sanitation	290,000	349,360	325,336	24,024
Recreation and Culture	420,000	434,500	402,954	31,546
Administration	327,400	251,750	203,772	47,978
Total Disbursements	<u>1,349,400</u>	<u>1,349,400</u>	<u>1,131,246</u>	<u>218,154</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(108,200)</u>	<u>(108,200)</u>	<u>(42,765)</u>	<u>65,435</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	65,000	65,000	80,843	15,843
Transfers To Other Funds	(300,000)	(300,000)	(270,396)	29,604
Total Other Adjustments to Cash (Uses)	<u>(235,000)</u>	<u>(235,000)</u>	<u>(189,553)</u>	<u>45,447</u>
Net Change in Fund Balance	(343,200)	(343,200)	(232,318)	110,882
Fund Balance - Beginning (Restated)	<u>343,200</u>	<u>343,200</u>	<u>883,813</u>	<u>540,613</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 651,495</u>	<u>\$ 651,495</u>



**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>FEDERAL GRANTS FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 450,000	\$ 450,000	\$ 220,150	\$ (229,850)
Interest	15	15	11	(4)
Total Receipts	<u>450,015</u>	<u>450,015</u>	<u>220,161</u>	<u>(229,854)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	200,000	200,000		200,000
General Health and Sanitation	366,015	366,015	220,150	145,865
Total Disbursements	<u>566,015</u>	<u>566,015</u>	<u>220,150</u>	<u>345,865</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(116,000)</u>	<u>(116,000)</u>	11	116,011
Net Change in Fund Balance	(116,000)	(116,000)	11	116,011
Fund Balance - Beginning	<u>116,000</u>	<u>116,000</u>	<u>116,101</u>	<u>101</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 116,112</u>	<u>\$ 116,112</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>SINKING FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Miscellaneous	\$	\$	\$ 10,323	\$ 10,323
Interest	500	500	70	(430)
Total Receipts	500	500	10,393	9,893
<b>DISBURSEMENTS</b>				
Debt Service	837,500	837,500	837,499	1
Total Disbursements	837,500	837,500	837,499	1
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(837,000)	(837,000)	(827,106)	9,894
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	787,000	787,000	1,061,000	274,000
Total Other Adjustments to Cash (Uses)	787,000	787,000	1,061,000	274,000
Net Change in Fund Balance	(50,000)	(50,000)	233,894	283,894
Fund Balance - Beginning	50,000	50,000	44,046	(5,954)
Fund Balance - Ending	\$ 0	\$ 0	\$ 277,940	\$ 277,940

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,000,000	\$ 2,000,000	\$ 925,465	\$ (1,074,535)
Total Receipts	2,000,000	2,000,000	925,465	(1,074,535)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	65,000	75,000	68,268	6,732
General Health and Sanitation	1,600,000	1,600,000	417,372	1,182,628
Social Services	125,000	125,000	59,531	65,469
Recreation and Culture	120,000	155,000	152,839	2,161
Debt Service	550,000	505,000		505,000
Capital Projects	152,000	152,000	25,772	126,228
Total Disbursements	2,612,000	2,612,000	723,782	1,888,218
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(612,000)	(612,000)	201,683	813,683
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(65,000)	(65,000)	(580,843)	(515,843)
Total Other Adjustments to Cash (Uses)	(65,000)	(65,000)	(580,843)	(515,843)
Net Change in Fund Balance	(677,000)	(677,000)	(379,160)	297,840
Fund Balance - Beginning	677,000	677,000	3,327,310	2,650,310
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,948,150	\$ 2,948,150

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>AIRPORT FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Miscellaneous	\$	\$	\$ 20,222	\$ 20,222
Total Receipts			20,222	20,222
<b>DISBURSEMENTS</b>				
Airports		1,200,000	1,200,000	893,738
Total Disbursements		1,200,000	1,200,000	893,738
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(1,200,000)	(1,200,000)	(873,516)
Net Change in Fund Balance		(1,200,000)	(1,200,000)	(873,516)
Fund Balance - Beginning		1,200,000	1,200,000	1,005,422
Fund Balance - Ending	\$	0	\$ 131,906	\$ 131,906

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>EMERGENCY 911 FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 118,000	\$ 118,000	\$ 110,716	\$ (7,284)
Intergovernmental	189,000	189,000	244,398	55,398
Interest	100	100	101	1
Total Receipts	<u>307,100</u>	<u>307,100</u>	<u>355,215</u>	<u>48,115</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	357,000	396,000	363,284	32,716
Administration	56,986	17,986	6,815	11,171
Total Disbursements	<u>413,986</u>	<u>413,986</u>	<u>370,099</u>	<u>43,887</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(106,886)</u>	<u>(106,886)</u>	<u>(14,884)</u>	<u>92,002</u>
Net Change in Fund Balance	(106,886)	(106,886)	(14,884)	92,002
Fund Balance - Beginning (Restated)	<u>106,886</u>	<u>106,886</u>	<u>507,280</u>	<u>400,394</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 492,396</u>	<u>\$ 492,396</u>

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

**June 30, 2018**

**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, 2018**

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

**For The Year Ended June 30, 2018**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 2,062,234	\$	\$	\$ 2,062,234
Buildings and Building Improvements	21,601,200	580,692		22,181,892
Vehicles	3,148,465	390,517	198,272	3,340,710
Machinery and Equipment	1,084,479	64,500		1,148,979
Infrastructure	49,531,231	772,640		50,303,871
Jail Commissary Vehicles and Machinery	169,366			169,366
 Total Capital Assets	 \$ 77,596,975	 \$ 1,808,349	 \$ 198,272	 \$ 79,207,052

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

**June 30, 2018**

**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.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
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

**HARLAN COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2018**

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**HARLAN COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2018**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<b><u>U.S. Department of Defense</u></b>				
<i>Passed-Through Harlan County Sheriff's Office:</i>				
Martins Fork Lake Patrol 2017	12.000	N/A	\$	\$ 4,200
<i>Passed-Through Harlan County Sheriff's Office:</i>				
Martins Fork Lake Patrol 2018	12.000	N/A	_____	_____ 2,400
<b>Total U.S. Department of Defense</b>			\$	\$ 6,600
<b><u>U. S. Department of Housing and Urban Development</u></b>				
<i>Passed-Through Kentucky Department for Local Government</i>				
Community Development Block Grant/State's Program Cumberland Hope Community (Recovery Kentucky)	14.228	15-074 16-046	\$	\$ 220,150
<b>Total U.S. Department of Housing and Urban Development</b>			\$	\$ 220,150
<b><u>U. S. Department of the Interior</u></b>				
<i>Passed-Through Kentucky Department for Local Government:</i>				
Outdoor Recreation, Acquisition, Development and Planning	15.916	N/A	\$	\$ 63,459
<b>Total U.S. Department of the Interior</b>			\$	\$ 63,459
<b><u>U. S. Department of Transportation</u></b>				
<i>Passed-Through Kentucky Department for Local Government:</i>				
<b>Highway Planning and Construction Cluster</b>				
Highway Planning and Construction (Rails to Trails)	20.205	N/A	\$	\$ 40,000
Recreational Trails Program	20.219	N/A	_____	_____ 212,480
<b>Total Highway Planning and Construction Cluster</b>				252,480
<i>Passed-Through Federal Aviation Administration:</i>				
Airport Improvement Program	20.106	N/A	_____	_____ 757,593
<b>Total U.S. Department of Transportation</b>			\$	\$ 1,010,073

The accompanying notes are an integral part of this schedule

**HARLAN COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2018**  
**(Continued)**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<b><u>Executive Office of the President</u></b>				
<i>Passed-Through Appalachia High Intensity Drug Trafficking Areas (HIDTA)</i>				
High Intensity Drug Trafficking Areas Program	95.001	N/A	\$	\$ 21,348
<b>Total Executive Office of the President</b>			\$	\$ 21,348
<b><u>U. S. Department of Homeland Security</u></b>				
<i>Passed-Through Kentucky Emergency Management</i>				
Emergency Management Performance Grant Program	97.042	N/A	\$	\$ 59,003
<b>Total U.S. Department of Homeland Security</b>			\$	\$ 59,003
Total Expenditures of Federal Awards			\$	\$ 1,380,633

The accompanying notes are an integral part of this schedule

**HARLAN COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**June 30, 2018**

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Harlan County, Kentucky under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Harlan County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Harlan County, Kentucky.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**Note 3. Indirect Cost Rate**

Harlan County has not adopted an indirect cost rate.

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**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***

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**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, 2018, 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 December 7, 2018.

**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 opinion 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 Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 to be a material weakness.



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

**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 Questioned Costs as items 2018-001 and 2018-002.

**Views of Responsible Officials 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 Questioned Costs. 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,

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

December 7, 2018

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH UNIFORM GUIDANCE**

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

The Honorable Dan Mosley, Harlan County Judge/Executive  
Members of the Harlan County Fiscal Court

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With Uniform Guidance

Independent Auditor's Report

**Report on Compliance for Each Major Federal Program**

We have audited the Harlan County Fiscal Court's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Harlan County Fiscal Court's major federal programs for the year ended June 30, 2018. The Harlan County Fiscal Court's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Harlan County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Harlan County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Harlan County Fiscal Court's compliance.



Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With Uniform Guidance  
(Continued)

**Opinion on Each Major Federal Program**

In our opinion, the Harlan County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control over Compliance**

Management of the Harlan County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Harlan County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Harlan County Fiscal Court's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

December 7, 2018



**HARLAN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2018**

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**HARLAN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2018**

**Section I: Summary of Auditor's Results**

***Financial Statement***

Type of report auditor issued: Adverse on GAAP and Unmodified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any noncompliances material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

***Federal Awards***

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs: <i>Unmodified</i>		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**HARLAN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended June 30, 2018**  
**(Continued)**

**Section II: Financial Statement Findings**

2018-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections

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This is a repeat finding and was included in the prior year audit report as finding 2017-001. 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 2018:

- The fiscal court does not have written agreements with districts for garbage collections.
- The fiscal court does not receive delinquent lists 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, 2018, the fiscal court is aware of at least \$699,079 in accounts receivable for collection of residential and commercial solid waste throughout Harlan County. 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. 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 in writing to provide all parties with the terms of the agreements. These written agreements should also include the supporting documentation to be provided to the fiscal court by third parties for fees collected and delinquent. In addition, the Solid Waste Franchise Renewal Agreement requires the fiscal court to provide quarterly to the company with the solid waste franchise documenting 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 listing to the county attorney for potential collection efforts and 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: From January 2015 through June 30, 2018, over \$4.5 million has been paid to the fiscal court for garbage service. In that same period, \$699,079 became delinquent. This places the county at over an 86% collection rate. We believe this to be in line with other collection services, and consider it to be a good collection rate. 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 collections. The court is also working with its software provider to determine the best way to move forward collecting data from the one utility district it does not receive information or delinquent lists from.*

**Auditor’s Reply:** As the finding notes, the accounts receivable amount could not be verified because reports were not provided by the utility districts. Without complete and accurate reporting, the fiscal court does not have the information to determine its true collection rate.

**HARLAN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2018  
(Continued)**

**Section II: Financial Statement Findings (Continued)**

2018-002 The Jailer Did Not Comply With Bidding Requirements Set Forth In KRS 424.260

This is a repeat finding and was included in the prior year audit report as finding 2017-003. The jailer paid a total of \$33,275 to a single vendor for electronic cigarettes purchased for resale through the jail commissary fund without obtaining bids. Jail commissary purchases of electronic cigarettes consisted of 11 separate purchases from the same vendor, all of which were less than \$20,000 each. The jailer was unaware of the requirement to obtain bids for these items. The jailer cannot ensure that he has purchased these items at the best price available without obtaining bids.

KRS 424.260(1) states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

We recommend the jailer comply with KRS 424.260 by obtaining bids for all purchases involving expenditures of more than \$20,000 except for those items exempted in the statute.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive’s Response: The official did not provide a response.*

*Jailer’s Response: When doing our own research into which ecig vendor to use we only came into [vendor 1] and [vendor 2]. We received free samples of each product to let certain inmates try to get an inmate perspective of what type was desirable. The [vendor 2] samples leaked upon arrival and were not tamperproof in any way. The [vendor 1] were tamper resistant, and in our facility the inmates all chose [vendor 1] as the viable option in flavor between the two. At that time [vendor 1] was also the least expensive option.*

Auditor’s Reply: Due to the dollar amount of the purchase, the jailer was required to advertise for bids for the electronic cigarettes, as noted in the finding. The process used by the jailer for selection does not comply with KRS 424.260.

**Section III: Federal Award Findings And Questioned Costs**

None

**Section IV: Summary Schedule of Prior Audit Findings**

None

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

**HARLAN COUNTY FISCAL COURT**

**For The Year Ended June 30, 2018**

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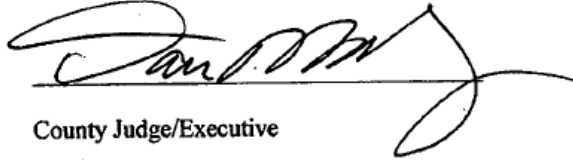
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

HARLAN COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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