

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

**For The Year Ended
June 30, 2019**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, 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, 2019, 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
The Honorable Andy Beshear, Governor
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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, 2019, 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, 2019, 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 and Other 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 (supplementary information) and Schedule of Capital Assets (other information) 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 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 are fairly stated in all material respects in relation to the financial statement as a whole.

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

To the People of Kentucky
The Honorable Andy Beshear, Governor
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The Honorable Dan Mosley, Harlan County Judge/Executive
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 March 30, 2021, on our consideration of the Harlan County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Harlan County Fiscal Court's internal control over financial reporting and compliance.

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

- 2019-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections
- 2019-002 The Harlan County Fiscal Court Did Not Present All Debt Activity In The Financial Statement

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

March 30, 2021

HARLAN COUNTY OFFICIALS**For The Year Ended June 30, 2019****Fiscal Court Members:**

Dan Mosley	County Judge/Executive
Clark Middleton	Magistrate
Bill Moore	Magistrate
David Kennedy (July 1, 2018 through December 31, 2018)	Magistrate
Paul Browning (January 1, 2019 through June 30, 2019)	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 (July 1, 2018 through December 31, 2018)	Administrative Assistant
Keri Stevens (January 1, 2019 through June 30, 2019)	Administrative Assistant
Alice Hensley	Chief Financial Officer
Stacey Madon	Account Payables
Keri Stevens (July 1, 2018 through December 31, 2018)	Payroll Clerk

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	<u>Budgeted Funds</u>			
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Local Government Economic Assistance Fund</u>
RECEIPTS				
Taxes	\$ 3,997,902	\$	\$	\$
In Lieu Tax Payments	18,416	1,755		
Excess Fees	51,662			
Licenses and Permits	159,885			
Intergovernmental	1,834,110	2,103,173	2,199,071	877,827
Charges for Services	1,435,805		31,267	
Miscellaneous	385,812	3,821	89,630	
Interest	38,048	18,830		2,154
Total Receipts	<u>7,921,640</u>	<u>2,127,579</u>	<u>2,319,968</u>	<u>879,981</u>
DISBURSEMENTS				
General Government	2,815,581	1,600		93,191
Protection to Persons and Property	207,640		1,997,734	77,634
General Health and Sanitation	1,525,659			325,559
Social Services	88,119			
Recreation and Culture	275,216			339,222
Transportation Facility and Services				
Roads		1,920,965		
Airports	54,029			
Debt Service	147,965	88,543		
Capital Projects	2,000			
Administration	1,577,682	327,228	738,864	185,305
Total Disbursements	<u>6,693,891</u>	<u>2,338,336</u>	<u>2,736,598</u>	<u>1,020,911</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,227,749</u>	<u>(210,757)</u>	<u>(416,630)</u>	<u>(140,930)</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds				
Net Premium (Discount) on Bond Issuance				
Transfers From Other Funds	191,572		392,875	
Transfers To Other Funds	(892,875)	(191,572)		
Total Other Adjustments to Cash (Uses)	<u>(701,303)</u>	<u>(191,572)</u>	<u>392,875</u>	
Net Change in Fund Balance	526,446	(402,329)	(23,755)	(140,930)
Fund Balance - Beginning (Restated)	<u>8,336,909</u>	<u>4,093,404</u>	<u>77,204</u>	<u>651,495</u>
Fund Balance - Ending	<u>\$ 8,863,355</u>	<u>\$ 3,691,075</u>	<u>\$ 53,449</u>	<u>\$ 510,565</u>
Composition of Fund Balance				
Bank Balance	\$ 8,459,526	\$ 3,721,114	\$ 112,120	\$ 525,450
Less: Outstanding Checks	(262,214)	(30,039)	(58,671)	(14,885)
Certificates of Deposit	666,043			
Fund Balance - Ending	<u>\$ 8,863,355</u>	<u>\$ 3,691,075</u>	<u>\$ 53,449</u>	<u>\$ 510,565</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, 2019
(Continued)

Budgeted Funds				
Federal Grant Fund	Sinking Fund	Local Government Economic Development Fund	Airport Fund	Emergency 911 Fund
\$	\$	\$	\$	\$ 118,543
200,100		1,008,190		235,761
	34,532			
12	1,094			1,650
<u>200,112</u>	<u>35,626</u>	<u>1,008,190</u>		<u>355,954</u>
		171,100		
		33,866		355,693
200,100		1,596,437		
		124,485		
		53,673		
			41,808	
	6,057,014	100,000		
		9,523		
				7,581
<u>200,100</u>	<u>6,057,014</u>	<u>2,089,084</u>	<u>41,808</u>	<u>363,274</u>
12	(6,021,388)	(1,080,894)	(41,808)	(7,320)
	5,065,000			
	157,512			
	1,000,000			
		(500,000)		
	<u>6,222,512</u>	<u>(500,000)</u>		
12	201,124	(1,580,894)	(41,808)	(7,320)
<u>116,112</u>	<u>277,940</u>	<u>2,948,150</u>	<u>131,906</u>	<u>492,397</u>
<u>\$ 116,124</u>	<u>\$ 479,064</u>	<u>\$ 1,367,256</u>	<u>\$ 90,098</u>	<u>\$ 485,077</u>
\$ 116,124	\$ 479,064	\$ 1,367,256	\$ 90,098	\$ 488,197
				(3,120)
<u>\$ 116,124</u>	<u>\$ 479,064</u>	<u>\$ 1,367,256</u>	<u>\$ 90,098</u>	<u>\$ 485,077</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, 2019
(Continued)

	<u>Unbudgeted Funds</u>		
	Justice Center Public Properties Corporation Fund	Jail Commissary Fund	Total Funds
RECEIPTS			
Taxes	\$	\$	\$ 4,116,445
In Lieu Tax Payments			20,171
Excess Fees			51,662
Licenses and Permits			159,885
Intergovernmental	668,200		9,126,432
Charges for Services			1,467,072
Miscellaneous		354,110	867,905
Interest	149		61,937
Total Receipts	<u>668,349</u>	<u>354,110</u>	<u>15,871,509</u>
DISBURSEMENTS			
General Government			3,081,472
Protection to Persons and Property			2,672,567
General Health and Sanitation			3,647,755
Social Services			212,604
Recreation and Culture		337,181	1,005,292
Transportation Facility and Services			41,808
Roads			1,920,965
Airports			54,029
Debt Service	666,700		7,060,222
Capital Projects			11,523
Administration	1,500		2,838,160
Total Disbursements	<u>668,200</u>	<u>337,181</u>	<u>22,546,397</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>149</u>	<u>16,929</u>	<u>(6,674,888)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds			5,065,000
Net Premium (Discount) on Bond Issuance			157,512
Transfers From Other Funds			1,584,447
Transfers To Other Funds			(1,584,447)
Total Other Adjustments to Cash (Uses)			<u>5,222,512</u>
Net Change in Fund Balance	149	16,929	(1,452,376)
Fund Balance - Beginning (Restated)	<u>2,577</u>	<u>101,308</u>	<u>17,229,402</u>
Fund Balance - Ending	<u>\$ 2,726</u>	<u>\$ 118,237</u>	<u>\$ 15,777,026</u>
Composition of Fund Balance			
Bank Balance	\$ 2,726	\$ 118,237	\$ 15,479,912
Less: Outstanding Checks			(368,929)
Certificates of Deposit			666,043
Fund Balance - Ending	<u>\$ 2,726</u>	<u>\$ 118,237</u>	<u>\$ 15,777,026</u>

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

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**HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2019

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, Tucker Guthrie Airport, and 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, 2019
(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 Grant 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.

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.

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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the justice center public properties corporation fund to be budgeted. 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.

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).

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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 Obligations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on this 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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2019.

	General Fund	Road Fund	Local Government Economic Development Fund	Total Transfers In
General Fund	\$	\$ 191,572	\$	\$ 191,572
Jail Fund	392,875			392,875
Sinking Fund	500,000		500,000	1,000,000
Total Transfers Out	\$ 892,875	\$ 191,572	\$ 500,000	\$ 1,584,447

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 3. Transfers (Continued)

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, 2019, was \$226,514.

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, 2019, 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, 2019, 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, 2019, was \$4,074.

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2019, was \$6,896.

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, 2019. The IDA board paid the balance \$156,290 to the fiscal court on June 26, 2020.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

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, 2019, was \$514,566.

Note 7. Legal Contingencies

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

Note 8. Long-term Debt

A. Other Debt

1. 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, 2019, the principal amount outstanding was \$4,355,000. Debt service requirements for the fiscal years ending June 30, 2020, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 220,000	\$ 119,500
2021	225,000	115,050
2022	230,000	110,500
2023	235,000	105,850
2024	240,000	100,500
2025-2029	1,315,000	398,644
2030-2034	1,545,000	183,538
2035	345,000	5,606
Totals	<u>\$ 4,355,000</u>	<u>\$ 1,139,188</u>

2. 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, 2019, is \$3,570,000. Debt service requirements for the fiscal years ending June 30, 2020, and thereafter are as follows:

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 8. Long-term Debt (Continued)

A. Other Debt (Continued)

2. Justice Center Public Properties Corporation Refunding Revenue Bonds - 2010 Series (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 550,000	\$ 120,800
2021	560,000	104,300
2022	585,000	86,100
2023	605,000	65,625
2024	625,000	44,450
2025	645,000	22,575
Totals	<u>\$ 3,570,000</u>	<u>\$ 443,850</u>

B. Direct Borrowing and Direct Placements

1. Kentucky Association of Counties (KACO) Lease Trust Program - Series 2018

On November 15, 2018, the Harlan County Fiscal Court entered into a financing agreement with Kentucky Association of Counties (KACo) leasing trust program in the amount of \$5,065,000 for the refinance of the Kentucky Association of Counties (KACo) leasing trust, series 2008, and the refinance of the Kentucky Area Development District (KADD) lease, 2007 issue. In order to secure all of its obligations, the lessee grants to the lessor a first and prior security interest in any and all right, title and interest of the Lessee in the portion of the project that constitute personal property and in all additions, attachments, accessories, and substitutions thereto, and on any proceeds therefrom. The debt requirements stipulate an annual principal payment and two semiannual interest payments with the lease termination date of February 1, 2038. As of June 30, 2019, the principal amount outstanding was \$4,995,000. Debt service requirements for the fiscal years ending June 30, 2020, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	\$ 270,000	\$ 235,817
2021	280,000	222,743
2022	295,000	207,667
2023	310,000	191,805
2024	330,000	175,030
2025-2029	1,910,000	594,100
2030-2034	965,000	227,588
2035-2038	635,000	68,605
Totals	<u>\$ 4,995,000</u>	<u>\$ 1,923,355</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 8. Long-term Debt (Continued)

B. Direct Borrowing and Direct Placements (Continued)

2. 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 lease was refinanced November 2018, with proceeds from a new lease entered into with Kentucky Association of Counties (KACO) on November 15, 2018. The county paid principal of \$59,871 and interest of \$75,833 with budgeted county funds prior to the refinancing. The proceeds of the refinancing paid off the remaining principal of \$2,846,489 with no additional interest due.

3. 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. The lease was refinanced November 2018 with proceeds from a new lease entered into with Kentucky Association of Counties (KACO) on November 15, 2018. The county paid principal of \$70,000 and interest of \$58,431 with budgeted county funds prior to the refinancing. The proceeds of the refinancing paid off the remaining principal of \$2,240,000 and additional accrued interest of \$17,661.

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Refunding Revenue Bonds	\$ 4,100,000	\$	\$ 530,000	\$ 3,570,000	\$ 550,000
General Obligation Bonds	4,570,000		215,000	4,355,000	220,000
Direct Borrowings and Direct Placements	5,216,360	5,065,000	5,286,360	4,995,000	270,000
Total Long-term Debt	\$ 13,886,360	\$ 5,065,000	\$ 6,031,360	\$ 12,920,000	\$ 1,040,000

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 8. Long-term Debt (Continued)

D. Aggregate Debt Schedule

The amounts of required principal and interest payments on long-term obligations at June 30, 2020, were as follows:

Fiscal Year Ended June 30	Other Debt		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2020	\$ 770,000	\$ 240,300	\$ 270,000	\$ 235,817
2021	785,000	219,350	280,000	222,743
2022	815,000	196,600	295,000	207,667
2023	840,000	171,475	310,000	191,805
2024	865,000	144,950	330,000	175,030
2025-2029	1,960,000	421,219	1,910,000	594,100
2030-2034	1,545,000	183,538	965,000	227,588
2035	345,000	5,606	635,000	68,605
	<u>\$ 7,925,000</u>	<u>\$ 1,583,038</u>	<u>\$ 4,995,000</u>	<u>\$ 1,923,355</u>

Note 9. Lease Agreement - Enterprise FM Trust

On July 16, 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 2019, the county leased 16 vehicles with total lease payments of \$123,554. The lease payments required under the leasing agreement for the fiscal years ending June 30, 2020, and thereafter are as follows:

Fiscal Year Ended June 30	Amount
2020	\$ 125,845
2021	78,314
2022	27,223
2023	7,971
2024	<u>3,985</u>
Total Lease Payments	<u>\$ 243,338</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

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, 2019, the ending principal balance of the loan was \$129,086.

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 Harlan County Fiscal Court. As of June 30, 2019, the outstanding principal balance due was \$955,000.

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, Kentucky, and the Bank of Harlan, Harlan, Kentucky in the amount of \$150,000. This assignment of deposit was renewed on July 27, 2018, and was executed among the Harlan County Fiscal Court (grantor); the Black Mountain Utility District (borrower); and the Monticello Banking Company (formerly Bank of Harlan, lender). 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) as a \$144,000 line of credit for Black Mountain Utility District. 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, 2019, the balance in the certificate of deposit account held for collateral was \$151,477 and Black Mountain Utility Districts loan balance on the line of credit is \$124,378.

Note 12. Flex 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, 2019, the county maintained \$0 for employees.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

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 2017 was \$677,144, FY 2018 was \$706,798, and FY 2019 was \$748,667.

Nonhazardous

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.

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 21.48 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:

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 13. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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

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

Once members reach a minimum vesting period of 15 years, they 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 percent. 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 percent 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.

Other Post-Employment Benefits (OPEB) (Continued)

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 percent. 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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 13. Employee Retirement System (Continued)

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.

Note 14. Deferred Compensation

The Harlan County Fiscal Court on March 1, 2003 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 501 High Street, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

Note 15. Insurance

For the fiscal year ended June 30, 2019, 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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 16. Prior Period Adjustments

	General Fund	Emergency 911 Fund
Fund Balance - Beginning	\$ 8,365,663	\$ 492,396
Prior Year Outstanding Checks Voided Then Reissued	(28,754)	
Rounding		1
	<u>8,336,909</u>	<u>492,397</u>
Fund Balance - Beginning (Adjusted)	<u>\$ 8,336,909</u>	<u>\$ 492,397</u>

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

For The Year Ended June 30, 2019

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HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,232,200	\$ 3,232,200	\$ 3,997,902	\$ 765,702
In Lieu Tax Payments	30	30	18,416	18,386
Excess Fees			51,662	51,662
Licenses and Permits	159,000	159,000	159,885	885
Intergovernmental	2,641,262	2,641,262	1,834,110	(807,152)
Charges for Services	1,509,000	1,509,000	1,435,805	(73,195)
Miscellaneous	228,000	228,000	385,812	157,812
Interest	10,000	10,000	38,048	28,048
Total Receipts	<u>7,779,492</u>	<u>7,779,492</u>	<u>7,921,640</u>	<u>142,148</u>
DISBURSEMENTS				
General Government	2,708,245	3,038,895	2,815,581	223,314
Protection to Persons and Property	215,164	281,164	207,640	73,524
General Health and Sanitation	1,664,776	1,701,992	1,525,659	176,333
Social Services	3,285,000	2,940,078	88,119	2,851,959
Recreation and Culture	230,000	416,030	275,216	140,814
Airports	300,000	59,673	54,029	5,644
Debt Service	154,000	154,000	147,965	6,035
Capital Projects	300,000	249,960	2,000	247,960
Administration	1,774,916	1,790,309	1,577,682	212,627
Total Disbursements	<u>10,632,101</u>	<u>10,632,101</u>	<u>6,693,891</u>	<u>3,938,210</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,852,609)</u>	<u>(2,852,609)</u>	<u>1,227,749</u>	<u>4,080,358</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	190,000	190,000	191,572	1,572
Transfers To Other Funds	<u>(661,786)</u>	<u>(661,786)</u>	<u>(892,875)</u>	<u>(231,089)</u>
Total Other Adjustments to Cash (Uses)	<u>(471,786)</u>	<u>(471,786)</u>	<u>(701,303)</u>	<u>(229,517)</u>
Net Change in Fund Balance	(3,324,395)	(3,324,395)	526,446	3,850,841
Fund Balance - Beginning (Restated)	<u>3,324,395</u>	<u>3,324,395</u>	<u>8,336,909</u>	<u>5,012,514</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,863,355</u>	<u>\$ 8,863,355</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 2,000	\$ 2,000	\$ 1,755	\$ (245)
Intergovernmental	1,990,847	2,282,472	2,103,173	(179,299)
Miscellaneous			3,821	3,821
Interest	7,000	7,000	18,830	11,830
Total Receipts	<u>1,999,847</u>	<u>2,291,472</u>	<u>2,127,579</u>	<u>(163,893)</u>
DISBURSEMENTS				
General Government		9,500	1,600	7,900
Roads	1,759,040	2,150,925	1,920,965	229,960
Debt Service	88,000	89,200	88,543	657
Administration	446,900	433,149	327,228	105,921
Total Disbursements	<u>2,293,940</u>	<u>2,682,774</u>	<u>2,338,336</u>	<u>344,438</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(294,093)</u>	<u>(391,302)</u>	<u>(210,757)</u>	<u>180,545</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(190,000)</u>	<u>(190,000)</u>	<u>(191,572)</u>	<u>(1,572)</u>
Total Other Adjustments to Cash (Uses)	<u>(190,000)</u>	<u>(190,000)</u>	<u>(191,572)</u>	<u>(1,572)</u>
Net Change in Fund Balance	(484,093)	(581,302)	(402,329)	178,973
Fund Balance - Beginning	484,093	581,302	4,093,404	3,512,102
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,691,075</u>	<u>\$ 3,691,075</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,193,000	\$ 2,193,000	\$ 2,199,071	\$ 6,071
Charges for Services	39,000	39,000	31,267	(7,733)
Miscellaneous	162,000	162,000	89,630	(72,370)
Total Receipts	<u>2,394,000</u>	<u>2,394,000</u>	<u>2,319,968</u>	<u>(74,032)</u>
DISBURSEMENTS				
Protection to Persons and Property	2,115,500	2,145,362	1,997,734	147,628
Administration	874,786	844,924	738,864	106,060
Total Disbursements	<u>2,990,286</u>	<u>2,990,286</u>	<u>2,736,598</u>	<u>253,688</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(596,286)</u>	<u>(596,286)</u>	<u>(416,630)</u>	<u>179,656</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>596,286</u>	<u>596,286</u>	<u>392,875</u>	<u>(203,411)</u>
Total Other Adjustments to Cash (Uses)	<u>596,286</u>	<u>596,286</u>	<u>392,875</u>	<u>(203,411)</u>
Net Change in Fund Balance			(23,755)	(23,755)
Fund Balance - Beginning			<u>77,204</u>	<u>77,204</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 53,449</u>	<u>\$ 53,449</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 980,000	\$ 980,000	\$ 877,827	\$ (102,173)
Interest	1,200	1,200	2,154	954
Total Receipts	<u>981,200</u>	<u>981,200</u>	<u>879,981</u>	<u>(101,219)</u>
DISBURSEMENTS				
General Government	134,000	134,000	93,191	40,809
Protection to Persons and Property	70,000	90,000	77,634	12,366
General Health and Sanitation	292,500	339,100	325,559	13,541
Recreation and Culture	390,000	375,000	339,222	35,778
Administration	282,600	231,000	185,305	45,695
Total Disbursements	<u>1,169,100</u>	<u>1,169,100</u>	<u>1,020,911</u>	<u>148,189</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(187,900)</u>	<u>(187,900)</u>	<u>(140,930)</u>	<u>46,970</u>
Net Change in Fund Balance	(187,900)	(187,900)	(140,930)	46,970
Fund Balance - Beginning	<u>187,900</u>	<u>187,900</u>	<u>651,495</u>	<u>463,595</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 510,565</u>	<u>\$ 510,565</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 200,000	\$ 200,000	\$ 200,100	\$ 100
Interest	15	15	12	(3)
Total Receipts	<u>200,015</u>	<u>200,015</u>	<u>200,112</u>	<u>97</u>
DISBURSEMENTS				
General Health and Sanitation	316,015	316,015	200,100	115,915
Total Disbursements	<u>316,015</u>	<u>316,015</u>	<u>200,100</u>	<u>115,915</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(116,000)</u>	<u>(116,000)</u>	<u>12</u>	<u>116,012</u>
Net Change in Fund Balance	(116,000)	(116,000)	12	116,012
Fund Balance - Beginning	<u>116,000</u>	<u>116,000</u>	<u>116,112</u>	<u>112</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 116,124</u>	<u>\$ 116,124</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	SINKING FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$ 34,532	\$ 34,532
Interest			1,094	1,094
Total Receipts			<u>35,626</u>	<u>35,626</u>
DISBURSEMENTS				
Debt Service	840,000	842,500	6,057,014	(5,214,514)
Administration	2,500			
Total Disbursements	<u>842,500</u>	<u>842,500</u>	<u>6,057,014</u>	<u>(5,214,514)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(842,500)</u>	<u>(842,500)</u>	<u>(6,021,388)</u>	<u>(5,178,888)</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds			5,065,000	5,065,000
Bond Premium			157,512	157,512
Transfers From Other Funds	565,500	565,500	1,000,000	434,500
Total Other Adjustments to Cash (Uses)	<u>565,500</u>	<u>565,500</u>	<u>6,222,512</u>	<u>5,657,012</u>
Net Change in Fund Balance	(277,000)	(277,000)	201,124	478,124
Fund Balance - Beginning (Restated)	<u>277,000</u>	<u>277,000</u>	<u>277,940</u>	<u>940</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 479,064</u>	<u>\$ 479,064</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 1,663,162	\$ 1,663,162	\$ 1,008,190	\$ (654,972)
Total Receipts	<u>1,663,162</u>	<u>1,663,162</u>	<u>1,008,190</u>	<u>(654,972)</u>
DISBURSEMENTS				
General Government	519,162	571,162	171,100	400,062
Protection to Persons and Property	52,000	52,000	33,866	18,134
General Health and Sanitation	1,575,000	2,022,600	1,596,437	426,163
Social Services	272,000	272,000	124,485	147,515
Recreation and Culture	86,000	146,000	53,673	92,327
Debt Service	559,000	125,400	100,000	25,400
Capital Projects	100,000	100,000	9,523	90,477
Total Disbursements	<u>3,163,162</u>	<u>3,289,162</u>	<u>2,089,084</u>	<u>1,200,078</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,500,000)</u>	<u>(1,626,000)</u>	<u>(1,080,894)</u>	<u>545,106</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(500,000)</u>	<u>(500,000)</u>	<u>(500,000)</u>	
Total Other Adjustments to Cash (Uses)	<u>(500,000)</u>	<u>(500,000)</u>	<u>(500,000)</u>	
Net Change in Fund Balance	(2,000,000)	(2,126,000)	(1,580,894)	545,106
Fund Balance - Beginning	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,948,150</u>	<u>948,150</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (126,000)</u>	<u>\$ 1,367,256</u>	<u>\$ 1,493,256</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	AIRPORT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$	\$	\$	\$
Total Receipts				
DISBURSEMENTS				
Transportation Facility and Services	200,000	200,000	41,808	158,192
Total Disbursements	200,000	200,000	41,808	158,192
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(200,000)	(200,000)	(41,808)	158,192
Net Change in Fund Balance	(200,000)	(200,000)	(41,808)	158,192
Fund Balance - Beginning	200,000	200,000	131,906	(68,094)
Fund Balance - Ending	\$ 0	\$ 0	\$ 90,098	\$ 90,098

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	EMERGENCY 911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 110,000	\$ 110,000	\$ 118,543	\$ 8,543
Intergovernmental	250,000	250,000	235,761	(14,239)
Interest	100	100	1,650	1,550
Total Receipts	<u>360,100</u>	<u>360,100</u>	<u>355,954</u>	<u>(4,146)</u>
DISBURSEMENTS				
Protection to Persons and Property	368,000	368,000	355,693	12,307
Administration	8,667	8,667	7,581	1,086
Total Disbursements	<u>376,667</u>	<u>376,667</u>	<u>363,274</u>	<u>13,393</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(16,567)</u>	<u>(16,567)</u>	<u>(7,320)</u>	<u>9,247</u>
Net Change in Fund Balance	(16,567)	(16,567)	(7,320)	9,247
Fund Balance - Beginning (Restated)	<u>16,567</u>	<u>16,567</u>	<u>492,397</u>	<u>475,830</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 485,077</u>	<u>\$ 485,077</u>

HARLAN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2019

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.

Note 2. Excess of Disbursements Over Appropriations

Sinking fund, debt service line item, exceeded budgeted appropriations by \$5,214,514 due to refinancing two bonds and not budgeting the payoff of the original bonds.

Note 3. Unbalanced Budget

The local government economic development fund final budget was out of balance by (\$126,000).

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

For The Year Ended June 30, 2019

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HARLAN COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Vehicles & Equipment	\$ 3,162,698	\$ 25,971	\$	\$ 3,188,669
Other Equipment	1,113,120			1,113,120
Land and Land Improvements	2,007,234			2,007,234
Buildings	20,785,526	110,000		20,895,526
Infrastructure	25,821,093	186,591		26,007,684
 Total Capital Assets	 * \$ 52,889,671	 \$ 322,562	 \$ 0	 \$53,212,233

* The Harlan County Fiscal Court adopted new capitalization thresholds on June 19, 2018, which resulted in a change in beginning balances from the prior year.

HARLAN COUNTY
NOTES TO OTHER INFORMATION - REGULATORY BASIS
SCHEDULE OF CAPITAL ASSETS

June 30, 2019

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	\$ 50,000	10-60
Buildings	\$ 100,000	10-75
Building Improvement	\$ 100,000	10-75
Equipment	\$ 10,000	3-25
Vehicles	\$ 10,000	3-25
Infrastructure	\$ 60,000	10-50

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

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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, 2019, 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 March 30, 2021.

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 Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001 and 2019-002 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2019-001 and 2019-002.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

March 30, 2021

**HARLAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

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**HARLAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections

This is a repeat finding and was included in the prior year audit report as finding 2018-001. 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 2019:

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

As of June 30, 2019, the fiscal court is aware of at least \$506,932 in accounts receivables 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. The lack of delinquent lists prevents the fiscal court from effectively monitoring uncollected revenues. Also, the fiscal court cannot provide a listing of delinquent residential customers to the company with the solid waste franchise.

The Harlan County Fiscal Court collects fees for garbage collections as allowed by KRS 109.056(2) and has chosen to collect these fees under the provisions of KRS 109.056(3). KRS 109.056(3) states the fiscal court, “may enter into an agreement with other utilities either public or private to collect such charges.” Good internal controls require these agreements be 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 company with solid waste franchise with a list of residential customers with delinquent accounts that are subject to having pickup services terminated.

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

County Judge/Executive’s Response: From January 2015 through June 30, 2019, nearly \$5.9 million has been paid to the fiscal court for garbage service. From the reports that we receive from the districts, it is our belief that \$578,401 is outstanding/delinquent as of June 30, 2019. From the reports that we do receive, this places the county at over a 91% collection rate. We realize we can’t truly calculate the collection rate with the information we receive, but with the limited information we receive from the districts, we believe this to be in line with other collection services, and consider it to be a good collection rate and a tremendous improvement from several years ago when it was below 50%. The court has worked with the County Attorney and the districts to prepare a written agreement and enter into a contract with all districts for garbage collections. Some districts have signed and returned the agreement, while some have not. The court has also been working with the County’s District Court in resolving delinquent matters and have been successful in the cases that have been presented to date.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Harlan County Fiscal Court Did Not Present All Debt Activity In The Financial Statement

The Harlan County Fiscal Court's fourth quarter financial report did not include the financial activity for two refinanced loans, causing the sinking fund to exceed the debt service line item budget.

The Harlan County Fiscal Court refinanced two bonds which were used to finance the construction of sewer and waterlines, in order to save the county money through lower interest rates. The refinancing proceeds went directly from lessor to the vendor and were not reported on the fiscal court's financial statement. Since these transactions did not run through the fiscal court's bank accounts, they were not included in the fiscal court's budget process or reflected on the fiscal court's financial statement.

Failure to include all debt activity on the financial statement caused the financial statement to be understated by \$5,214,514. After the financial statement was adjusted to properly account for the debt, the county's budget to actual statement presented as supplementary information accompanying the financial statement shows the debt service line in the sinking fund to be under budgeted by \$5,214,514.

The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* provides requirements and guidance for county government's preparation and presentation of the financial statement and budget. Page 48 of the manual states, "[a]ll borrowed money received and repaid must be reflected in the county budget," page 72 of the manual states, "[a]ll county money is to be reported on the financial statement whether it is included in the budget or not," and page 74 of the manual states, "[a]ny borrowed money that is not reflected in the original budget estimate must be **amended** into the budget and be properly reflected on the financial report as a receipt as well as an "expenditure" for repayment of borrowed funds." Good internal controls dictate that all debt activity be included in the financial statement in order to present an accurate financial picture of the fiscal court.

We recommend the Harlan County Fiscal Court present all financial activity in the county's financial statement as required by the regulatory basis of accounting. In addition to complying with the Department for Local Government's financial statement presentation requirements, this will also ensure all line items are properly budgeted or amended as needed.

County Judge/Executive's Response: The county refinanced two bonds to reduce interest paid over the life of these two bonds. This refinance will save taxpayers of Harlan County around \$625,000 over the life of the loan. This transaction was not included in the budget because no funds were received by the Fiscal Court or County Treasurer, nor did the Fiscal Court or County Treasurer issue any payments associated with this refinance. All financial transactions occurred between the financial institutions involved and no funds flowed through any county bank accounts, as the comment stated. The County did reflect in the debt section of the financial statements a zero balance on the two refinanced bonds, along with the new debt issued and the amount. The County did budget for the repayment of these bonds, which is the only transaction that flowed through any county maintained bank accounts and the budget. Going forward, the county will include any debt as a budget line item to ensure they are included in the revenues and expenditures portion of the financial statement, even in instances like this one, where no funds flow through the county treasury.

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

HARLAN COUNTY FISCAL COURT

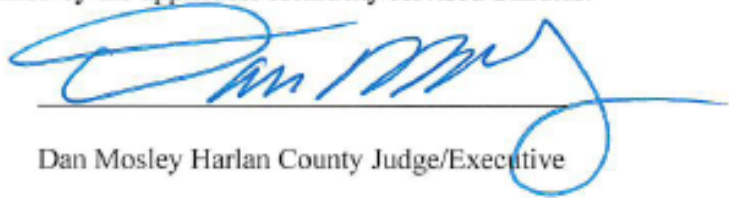
For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

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



Dan Mosley Harlan County Judge/Executive



Ryan Creech County Treasurer