

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

**For The Year Ended
June 30, 2020**



**MIKE HARMON
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
HARLAN COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT.....	10
BUDGETARY COMPARISON SCHEDULES.....	27
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	36
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	39
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	40
SCHEDULE OF CAPITAL ASSETS.....	43
NOTES TO OTHER INFORMATION - REGULATORY BASIS SCHEDULE OF CAPITAL ASSETS.....	44
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 <i>GOVERNMENT AUDITING STANDARDS</i>	47
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE.....	51
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	55
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM	

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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, 2020, 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, 2020, 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, 2020, 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 and the Schedule of Expenditures of Federal Awards (supplementary information), 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) 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 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 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 Andy Beshear, Governor
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Other Matters (Continued)

Supplementary and Other Information (Continued)

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 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 Questioned Costs included herein, which discusses the following report findings:

- 2020-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections
- 2020-002 The Harlan County Fiscal Court Did Not Present All Debt Activity In The Financial Statement

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 2, 2021

HARLAN COUNTY OFFICIALS**For The Year Ended June 30, 2020****Fiscal Court Members:**

Dan Mosley	County Judge/Executive
Clark Middleton	Magistrate
Bill Moore	Magistrate
Paul Browning	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
Keri Stevens	Administrative Assistant
Alice Hensley	Chief Financial Officer
Stacey Madon	Account Payables

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

For The Year Ended June 30, 2020

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

For The Year Ended June 30, 2020

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 3,446,362	\$	\$
In Lieu Tax Payments	2	1,605	
Excess Fees	81,872		
Licenses and Permits	158,849		
Intergovernmental	1,599,469	1,996,180	2,198,929
Charges for Services	1,404,321		28,579
Miscellaneous	512,033	58	138,464
Interest	63,907	21,253	
Total Receipts	<u>7,266,815</u>	<u>2,019,096</u>	<u>2,365,972</u>
DISBURSEMENTS			
General Government	2,516,110		
Protection to Persons and Property	234,815		1,977,530
General Health and Sanitation	1,881,503		
Social Services	53,170		
Recreation and Culture	600,245		
Roads		2,620,916	
Airports	94,929		
Debt Service	75,816	330,472	
Capital Projects	2,000		
Administration	1,583,244	313,762	637,337
Total Disbursements	<u>7,041,832</u>	<u>3,265,150</u>	<u>2,614,867</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>224,983</u>	<u>(1,246,054)</u>	<u>(248,895)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds		583,400	
Transfers From Other Funds			253,912
Transfers To Other Funds	(596,866)		
Total Other Adjustments to Cash (Uses)	<u>(596,866)</u>	<u>583,400</u>	<u>253,912</u>
Net Change in Fund Balance	(371,883)	(662,654)	5,017
Fund Balance - Beginning (Restated)	<u>8,863,306</u>	<u>3,691,076</u>	<u>53,449</u>
Fund Balance - Ending	<u>\$ 8,491,423</u>	<u>\$ 3,028,422</u>	<u>\$ 58,466</u>
Composition of Fund Balance			
Bank Balance	\$ 8,230,623	\$ 3,197,144	\$ 154,043
Plus: Deposits In Transit	11,485	500,000	159,495
Less: Outstanding Checks	(426,623)	(668,722)	(255,072)
Certificates of Deposit	675,938		
Fund Balance - Ending	<u>\$ 8,491,423</u>	<u>\$ 3,028,422</u>	<u>\$ 58,466</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, 2020
(Continued)

Budgeted Funds					
Local Government Economic Assistance Fund	Federal Grant Fund	Sinking Fund	Local Government Economic Development Fund	Airport Fund	Emergency 911 Fund
\$	\$	\$	\$	\$	\$ 281,918
1,847,515	200,000		1,201,588		249,122
15,704	11	42,439 1,588			2,513
<u>1,863,219</u>	<u>200,011</u>	<u>44,027</u>	<u>1,201,588</u>		<u>533,553</u>
86,279			150,000		
65,573			80,148		430,668
215,367	217,000		549,925		
148,790			111,500		
			26,449		
115,510		845,318	175,000		7,988
<u>631,519</u>	<u>217,000</u>	<u>845,318</u>	<u>1,117,284</u>		<u>438,656</u>
<u>1,231,700</u>	<u>(16,989)</u>	<u>(801,291)</u>	<u>84,304</u>		<u>94,897</u>
		842,954	(500,000)		
		<u>842,954</u>	<u>(500,000)</u>		
1,231,700	(16,989)	41,663	(415,696)		94,897
510,564	116,124	479,064	1,367,256	90,098	485,076
<u>\$ 1,742,264</u>	<u>\$ 99,135</u>	<u>\$ 520,727</u>	<u>\$ 951,560</u>	<u>\$ 90,098</u>	<u>\$ 579,973</u>
\$ 1,766,845	\$ 99,135	\$ 520,727	\$ 987,290	\$ 90,098	\$ 593,134
(24,581)			(35,730)		190,000
					(203,161)
<u>\$ 1,742,264</u>	<u>\$ 99,135</u>	<u>\$ 520,727</u>	<u>\$ 951,560</u>	<u>\$ 90,098</u>	<u>\$ 579,973</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, 2020
(Continued)

	<u>Unbudgeted Funds</u>		
	Justice Center Public Properties Corporation Fund	Jail Commissary Fund	Total Funds
RECEIPTS			
Taxes	\$	\$	\$ 3,728,280
In Lieu Tax Payments			1,607
Excess Fees			81,872
Licenses and Permits			158,849
Intergovernmental	672,300		9,965,103
Charges for Services			1,432,900
Miscellaneous		377,122	1,070,116
Interest	150		105,126
Total Receipts	<u>672,450</u>	<u>377,122</u>	<u>16,543,853</u>
DISBURSEMENTS			
General Government			2,752,389
Protection to Persons and Property			2,788,734
General Health and Sanitation			2,863,795
Social Services			164,670
Recreation and Culture		372,045	1,147,529
Roads			2,620,916
Airports			94,929
Debt Service	670,800		2,097,406
Capital Projects			26,262
Administration	1,500		2,659,341
Total Disbursements	<u>672,300</u>	<u>372,045</u>	<u>17,215,971</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>150</u>	<u>5,077</u>	<u>(672,118)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds			583,400
Transfers From Other Funds			1,096,866
Transfers To Other Funds			(1,096,866)
Total Other Adjustments to Cash (Uses)			<u>583,400</u>
Net Change in Fund Balance	150	5,077	(88,718)
Fund Balance - Beginning (Restated)	<u>2,726</u>	<u>118,237</u>	<u>15,776,976</u>
Fund Balance - Ending	<u>\$ 2,876</u>	<u>\$ 123,314</u>	<u>\$ 15,688,258</u>
Composition of Fund Balance			
Bank Balance	\$ 2,876	\$ 123,314	\$ 15,765,229
Plus: Deposits In Transit			860,980
Less: Outstanding Checks			(1,613,889)
Certificates of Deposit			675,938
Fund Balance - Ending	<u>\$ 2,876</u>	<u>\$ 123,314</u>	<u>\$ 15,688,258</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
NOTE 2.	DEPOSITS	13
NOTE 3.	TRANSFERS.....	14
NOTE 4.	CUSTODIAL FUNDS	14
NOTE 5.	ACCOUNTS RECEIVABLE - HARLAN COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY BOARD ...	15
NOTE 6.	RESERVED FOR YOUTH ACTIVITIES AND FACILITIES - CERTIFICATE OF DEPOSIT	15
NOTE 7.	LEGAL CONTINGENCIES	15
NOTE 8.	LONG-TERM DEBT	15
NOTE 9.	LEASE AGREEMENT - ENTERPRISE FM TRUST	18
NOTE 10.	CONTINGENT LIABILITY	19
NOTE 11.	CONDUIT DEBT.....	19
NOTE 12.	FLEX SPENDING ARRANGEMENT.....	20
NOTE 13.	EMPLOYEE RETIREMENT SYSTEM	20
NOTE 14.	DEFERRED COMPENSATION.....	22
NOTE 15.	INSURANCE.....	23
NOTE 16.	PRIOR PERIOD ADJUSTMENTS	23

**HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2020

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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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.

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 Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

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, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

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

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

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

The state local finance officer does not require the justice center public properties 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, 2020
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

H. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing 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 federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. On June 30, 2020, the fiscal court's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$65,476

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2020.

	General Fund	Local Government Economic Development Fund	Total Transfers In
Jail Fund	\$ 253,912	\$	\$ 253,912
Sinking Fund	342,954	500,000	842,954
Total Transfers Out	<u>\$ 596,866</u>	<u>\$ 500,000</u>	<u>\$ 1,096,866</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. Custodial Funds

Custodial funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. In accordance with the regulatory basis of accounting, custodial funds are not presented on the financial statement.

The fiscal court has the following custodial 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, 2020, was \$226,534.

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, 2020, 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, 2020, 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, 2020, 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, 2020, was \$10,321.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(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, 2019. The IDA board paid the balance \$156,290 to the fiscal court on June 26, 2020.

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, 2020, was \$523,969.

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. Direct Borrowings 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, 2020, the principal amount outstanding was \$4,725,000. Debt service requirements for the fiscal years ending June 30, 2021, and thereafter are as follows:

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 8. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

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

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 280,000	\$ 222,743
2022	295,000	207,667
2023	310,000	191,805
2024	330,000	175,030
2025	345,000	157,330
2026-2030	2,000,000	498,000
2031-2035	680,000	193,725
2036-2038	485,000	41,238
Totals	<u>\$ 4,725,000</u>	<u>\$ 1,687,538</u>

2. Financing Obligation - Truck

On March 12, 2020, Harlan County Fiscal Court entered into a lease in the amount of \$144,922 with an option to purchase with Magnolia Bank through Kentucky Association of Counties (KACO) Leasing Trust. The terms of the lease called for 18 months at an interest rate of 3.95% ending on June 20, 2020 to be secured by the truck. The loan called for monthly interest payments with the principal amount being due on June 20, 2020. This obligation was paid full in full as of June 30, 2020.

3. Financing Obligation - Trucks

The county entered into a new lease in the amount of \$438,478 with Magnolia Bank through KACO Leasing Trust on April 21, 2020, to refinance the lease dated March 12, 2020, and to also lease an additional three trucks with an option to purchase. The terms of the new lease called for 18 months at an interest rate of 2.55% (which includes and administrative fee of .40%) ending on October 20, 2021, to be secured by the trucks. The loan called for monthly interest payments with the principal amount being due on October 20, 2021. The balance at June 30, 2020, was \$438,478.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	<u>\$ 438,478</u>	<u>\$ 14,908</u>
Totals	<u>\$ 438,478</u>	<u>\$ 14,908</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 8. Long-term Debt (Continued)

B. 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, 2020, the principal amount outstanding was \$4,135,000. Debt service requirements for the fiscal years ending June 30, 2021, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 225,000	\$ 115,050
2022	230,000	110,500
2023	235,000	105,850
2024	240,000	100,500
2025	255,000	94,312
2026-2030	1,350,000	359,944
2031-2035	<u>1,600,000</u>	<u>133,531</u>
Totals	<u>\$ 4,135,000</u>	<u>\$ 1,019,687</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, 2020, is \$3,020,000. Debt service requirements for the fiscal years ending June 30, 2021, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	\$ 560,000	\$ 104,300
2022	585,000	86,100
2023	605,000	65,625
2024	625,000	44,450
2025	<u>645,000</u>	<u>22,575</u>
Totals	<u>\$ 3,020,000</u>	<u>\$ 323,050</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 8. Long-term Debt (Continued)

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Refunding Revenue Bonds	\$ 3,570,000		\$ 550,000	3,020,000	\$ 560,000
General Obligation Bonds	4,355,000		220,000	4,135,000	225,000
Direct Borrowings and Direct Placements	4,995,000	583,400	414,922	5,163,478	718,478
Total Long-term Debt	<u>\$ 12,920,000</u>	<u>\$ 583,400</u>	<u>\$ 1,184,922</u>	<u>\$ 12,318,478</u>	<u>\$ 1,503,478</u>

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
2021	\$ 785,000	\$ 219,350	\$ 718,478	\$ 237,651
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	900,000	116,887	345,000	157,330
2026-2030	1,350,000	359,944	2,000,000	498,000
2031-2035	1,600,000	133,531	680,000	193,725
2036-2038			485,000	41,238
Totals	<u>\$ 7,155,000</u>	<u>\$ 1,342,737</u>	<u>\$ 5,163,478</u>	<u>\$ 1,702,446</u>

Note 9. Lease Agreement - Enterprise FM Trust

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 2020, the county leased 16 vehicles with a total lease outstanding lease balance of \$460,803 as of June 30, 2020.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 9. Lease Agreement - Enterprise FM Trust (Continued)

The lease payments required under the leasing agreement for the fiscal years ending June 30, 2021, and thereafter are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2021	\$ 156,379
2022	110,715
2023	91,463
2024	87,477
2025	<u>14,769</u>
Total Lease Payments	<u>\$ 460,803</u>

Note 10. Contingent Liability

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, 2020, the ending principal balance of the loan was \$121,582.

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, 2020, the outstanding principal balance due was \$900,000.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 11. Conduit Debt (Continued)

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 August 28, 2019, 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, 2020, the balance in the certificate of deposit account held for collateral was \$151,933 and Black Mountain Utility Districts loan balance on the line of credit is \$107,624.

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, 2020, 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 2018 was \$706,798, FY 2019 was \$748,667, and FY 2020 was \$795,357.

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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 13. Employee Retirement System (Continued)

Nonhazardous (Continued)

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 24.06 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:

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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 13. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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 voted on March 1, 2003 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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2020
(Continued)

Note 14. Deferred Compensation (Continued)

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, 2020, 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

	<u>General Fund</u>	<u>Road Fund</u>	<u>LGEA Fund</u>	<u>E-911 Fund</u>
Fund Balance - Beginning	\$ 8,863,355	\$ 3,691,075	\$ 510,565	\$ 485,077
Prior Year Liability Correction	(49)			
Rounding		1	(1)	(1)
Fund Balance - Beginning (Adjusted)	<u>\$ 8,863,306</u>	<u>\$ 3,691,076</u>	<u>\$ 510,564</u>	<u>\$ 485,076</u>

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HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

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HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2020

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,283,200	\$ 3,283,200	\$ 3,446,362	\$ 163,162
In Lieu Tax Payments	300	300	2	(298)
Excess Fees			81,872	81,872
Licenses and Permits	161,000	161,000	158,849	(2,151)
Intergovernmental	4,968,130	4,968,130	1,599,469	(3,368,661)
Charges for Services	1,420,000	1,420,000	1,404,321	(15,679)
Miscellaneous	363,000	363,000	512,033	149,033
Interest	15,000	15,000	63,907	48,907
Total Receipts	<u>10,210,630</u>	<u>10,210,630</u>	<u>7,266,815</u>	<u>(2,943,815)</u>
DISBURSEMENTS				
General Government	2,739,511	2,814,333	2,516,110	298,223
Protection to Persons and Property	153,664	269,747	234,815	34,932
General Health and Sanitation	2,504,520	2,655,125	1,881,503	773,622
Social Services	3,091,000	2,998,942	53,170	2,945,772
Recreation and Culture	2,725,000	2,432,478	600,245	1,832,233
Airports		94,958	94,929	29
Debt Service	79,000	81,505	75,816	5,689
Capital Projects		2,000	2,000	
Administration	1,904,416	1,848,023	1,583,244	264,779
Total Disbursements	<u>13,197,111</u>	<u>13,197,111</u>	<u>7,041,832</u>	<u>6,155,279</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,986,481)</u>	<u>(2,986,481)</u>	<u>224,983</u>	<u>3,211,464</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	200,000	200,000		(200,000)
Transfers To Other Funds	(590,186)	(590,186)	(596,866)	(6,680)
Total Other Adjustments to Cash (Uses)	<u>(390,186)</u>	<u>(390,186)</u>	<u>(596,866)</u>	<u>(206,680)</u>
Net Change in Fund Balance	(3,376,667)	(3,376,667)	(371,883)	3,004,784
Fund Balance - Beginning (Restated)	<u>3,376,667</u>	<u>3,376,667</u>	<u>8,863,306</u>	<u>5,486,639</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,491,423</u>	<u>\$ 8,491,423</u>

HARLAN COUNTY 0
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(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	\$ 1,605	\$ (395)
Intergovernmental	1,973,347	1,973,347	1,996,180	22,833
Miscellaneous			58	58
Interest	10,000	10,000	21,253	11,253
Total Receipts	<u>1,985,347</u>	<u>1,985,347</u>	<u>2,019,096</u>	<u>33,749</u>
DISBURSEMENTS				
Roads	2,297,560	2,310,760	2,620,916	(310,156)
Debt Service	150,000	186,451	330,472	(144,021)
Administration	453,150	403,499	313,762	89,737
Total Disbursements	<u>2,900,710</u>	<u>2,900,710</u>	<u>3,265,150</u>	<u>(364,440)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(915,363)</u>	<u>(915,363)</u>	<u>(1,246,054)</u>	<u>(330,691)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			583,400	583,400
Transfers To Other Funds	(200,000)	(200,000)		200,000
Total Other Adjustments to Cash (Uses)	<u>(200,000)</u>	<u>(200,000)</u>	<u>583,400</u>	<u>783,400</u>
Net Change in Fund Balance	(1,115,363)	(1,115,363)	(662,654)	452,709
Fund Balance - Beginning (Restated)	<u>1,115,363</u>	<u>1,115,363</u>	<u>3,691,076</u>	<u>2,575,713</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,028,422</u>	<u>\$ 3,028,422</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,181,000	\$ 2,181,000	\$ 2,198,929	\$ 17,929
Charges for Services	32,200	32,200	28,579	(3,621)
Miscellaneous	138,500	138,500	138,464	(36)
Total Receipts	<u>2,351,700</u>	<u>2,351,700</u>	<u>2,365,972</u>	<u>14,272</u>
DISBURSEMENTS				
Protection to Persons and Property	2,087,000	2,139,100	1,977,530	161,570
Administration	854,886	854,886	637,337	217,549
Total Disbursements	<u>2,941,886</u>	<u>2,993,986</u>	<u>2,614,867</u>	<u>379,119</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(590,186)</u>	<u>(642,286)</u>	<u>(248,895)</u>	<u>393,391</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	590,186	590,186	253,912	(336,274)
Total Other Adjustments to Cash (Uses)	<u>590,186</u>	<u>590,186</u>	<u>253,912</u>	<u>(336,274)</u>
Net Change in Fund Balance		(52,100)	5,017	57,117
Fund Balance - Beginning			53,449	53,449
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (52,100)</u>	<u>\$ 58,466</u>	<u>\$ 110,566</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 742,031	\$ 742,031	\$ 1,847,515	\$ 1,105,484
Interest	500	500	15,704	15,204
Total Receipts	<u>742,531</u>	<u>742,531</u>	<u>1,863,219</u>	<u>1,120,688</u>
DISBURSEMENTS				
General Government	100,000	100,000	86,279	13,721
Protection to Persons and Property	75,000	75,000	65,573	9,427
General Health and Sanitation	221,500	231,544	215,367	16,177
Recreation and Culture	175,000	180,000	148,790	31,210
Administration	171,031	155,987	115,510	40,477
Total Disbursements	<u>742,531</u>	<u>742,531</u>	<u>631,519</u>	<u>111,012</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>1,231,700</u>	<u>1,231,700</u>
Net Change in Fund Balance			1,231,700	1,231,700
Fund Balance - Beginning (Restated)			<u>510,564</u>	<u>510,564</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,742,264</u>	<u>\$ 1,742,264</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 220,000	\$ 220,000	\$ 200,000	\$ (20,000)
Interest	12	12	11	(1)
Total Receipts	<u>220,012</u>	<u>220,012</u>	<u>200,011</u>	<u>(20,001)</u>
DISBURSEMENTS				
General Health and Sanitation	336,012	336,012	217,000	119,012
Total Disbursements	<u>336,012</u>	<u>336,012</u>	<u>217,000</u>	<u>119,012</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(116,000)</u>	<u>(116,000)</u>	<u>(16,989)</u>	<u>99,011</u>
Net Change in Fund Balance	(116,000)	(116,000)	(16,989)	99,011
Fund Balance - Beginning	<u>116,000</u>	<u>116,000</u>	<u>116,124</u>	<u>124</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 99,135</u>	<u>\$ 99,135</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	SINKING FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 0	\$ 0	\$ 42,439	\$ 42,439
Interest	1,000	1,000	1,588	588
Total Receipts	<u>1,000</u>	<u>1,000</u>	<u>44,027</u>	<u>43,027</u>
DISBURSEMENTS				
Debt Service	846,000	846,000	845,318	682
Total Disbursements	<u>846,000</u>	<u>846,000</u>	<u>845,318</u>	<u>682</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(845,000)</u>	<u>(845,000)</u>	<u>(801,291)</u>	<u>43,709</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	500,000	500,000	842,954	342,954
Total Other Adjustments to Cash (Uses)	<u>500,000</u>	<u>500,000</u>	<u>842,954</u>	<u>342,954</u>
Net Change in Fund Balance	(345,000)	(345,000)	41,663	386,663
Fund Balance - Beginning	<u>345,000</u>	<u>345,000</u>	<u>479,064</u>	<u>134,064</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 520,727</u>	<u>\$ 520,727</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,158,000	\$ 1,158,000	\$ 1,201,588	\$ 43,588
Total Receipts	<u>1,158,000</u>	<u>1,158,000</u>	<u>1,201,588</u>	<u>43,588</u>
DISBURSEMENTS				
General Government	150,000	150,000	150,000	
Protection to Persons and Property	66,000	81,000	80,148	852
General Health and Sanitation	500,000	569,926	549,925	20,001
Social Services	152,000	124,119	111,500	12,619
Recreation and Culture	15,000	27,862	26,449	1,413
Debt Service	175,000	175,000	175,000	
Capital Projects	100,000	30,093	24,262	5,831
Total Disbursements	<u>1,158,000</u>	<u>1,158,000</u>	<u>1,117,284</u>	<u>40,716</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>84,304</u>	<u>84,304</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	(500,000)	(500,000)	(415,696)	84,304
Fund Balance - Beginning	<u>500,000</u>	<u>500,000</u>	<u>1,367,256</u>	<u>867,256</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 951,560</u>	<u>\$ 951,560</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	AIRPORT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Capital Projects	\$ 100,000	\$ 100,000	\$	\$ 100,000
Total Disbursements	100,000	100,000		100,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(100,000)	(100,000)		100,000
Net Change in Fund Balance	(100,000)	(100,000)		100,000
Fund Balance - Beginning	100,000	100,000	90,098	(9,902)
Fund Balance - Ending	\$ 0	\$ 0	\$ 90,098	\$ 90,098

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2020
(Continued)

	EMERGENCY 911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 270,000	\$ 270,000	\$ 281,918	\$ 11,918
Intergovernmental	220,000	220,000	249,122	29,122
Interest	100	100	2,513	2,413
Total Receipts	<u>490,100</u>	<u>490,100</u>	<u>533,553</u>	<u>43,453</u>
DISBURSEMENTS				
Protection to Persons and Property	497,000	517,000	430,668	86,332
Administration	28,545	8,545	7,988	557
Total Disbursements	<u>525,545</u>	<u>525,545</u>	<u>438,656</u>	<u>86,889</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(35,445)</u>	<u>(35,445)</u>	<u>94,897</u>	<u>130,342</u>
Net Change in Fund Balance	(35,445)	(35,445)	94,897	130,342
Fund Balance - Beginning (Restated)	<u>35,445</u>	<u>35,445</u>	<u>485,076</u>	<u>449,631</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 579,973</u>	<u>\$ 579,973</u>

HARLAN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2020

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

Road fund, road and debt service line items, exceeded budgeted appropriations by \$310,156 and 144,021. This was due to purchasing one truck and refinancing the loan, then purchasing an additional three trucks. Total road fund disbursements exceeded budgeted appropriations by \$364,440.

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

For The Year Ended June 30, 2020

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HARLAN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<u>U. S. Department of Treasury</u>				
<i>Passed-Through State Department of Local Government</i>				
COVID-19 Coronavirus Relief Fund	21.019	Not Available	\$ _____	\$ 363,038
Total U.S. Department of Treasury			_____	363,038
<u>U. S. Department of Housing and Urban Development</u>				
<i>Passed-Through Kentucky Department for Local Government</i>				
CDBG - Cumberland Hope Community	14.228	18-052	\$ _____	\$ 200,000
Total U.S. Department of Housing and Urban Development			_____	200,000
<u>U. S. Department of Homeland Security</u>				
<i>Passed-Through Kentucky Emergency Management</i>				
Federal Emergency Management Agency (FEMA)	97.048	Not Available	\$ _____	\$ 53,100
Emergency Management Performance Grant	97.042	Not Available	_____	25,943
Total U.S. Department of Homeland Security			_____	79,043
<u>Executive Office of the President</u>				
<i>Passed-Through Appalachia High Intensity Drug Trafficking Areas (HIDTA)</i>				
High Intensity Drug Trafficking Areas Program (HIDTA)	95.001	Not Available	\$ _____	\$ 14,544
Total Executive Office of the President			_____	14,544
<u>U. S. Department of the Interior</u>				
<i>Passed-Through Kentucky Department for Local Government:</i>				
Abandoned Mine Land Reclamation Program	15.252	Not Available	\$ _____	\$ 248,820
Total U.S. Department of Interior			_____	248,820
<u>U.S. Department of Transportation</u>				
<i>Passed-Through Federal Aviation Administration:</i>				
Airport Improvement Program	20.106	Not Available	\$ _____	\$ 88,121
Total U.S. Department of Transportation			_____	88,121
<u>U.S. Department of Defense</u>				
<i>Passed-Through Harlan County Sheriff's Office:</i>				
Martins Fork Lake Patrol	12.U01	Not Available	\$ _____	\$ 4,200
Total U.S. Department of Defense			_____	4,200
Total Expenditures of Federal Awards			\$ 0	\$ 997,766

The accompanying notes are an integral part of this schedule.

HARLAN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2020

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, 2020. 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 elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

For The Year Ended June 30, 2020

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HARLAN COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2020

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles and Equipment	\$ 3,188,669	\$ 83,470	\$ 388,751	\$ 2,883,388
Other Equipment	1,113,120			1,113,120
Land and Land Improvements	2,007,234	1,002,773		3,010,007
Buildings	20,895,526	304,667		21,200,193
Infrastructure	26,007,684	669,076		26,676,760
 Total Capital Assets	 <u>\$ 53,212,233</u>	 <u>\$ 2,059,986</u>	 <u>\$ 388,751</u>	 <u>\$ 54,883,468</u>

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

June 30, 2020

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 and Land Improvements	\$ 50,000	10-60
Buildings	\$ 100,000	10-75
Other Equipment	\$ 10,000	3-25
Vehicles and Equipment	\$ 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, 2020, 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 June 2, 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) as a basis for designing 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 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 Questioned Costs as items 2020-001 and 2020-002 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 financial statement. 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 2020-001 and 2020-002.

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 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,



Mike Harmon
Auditor of Public Accounts

June 2, 2021

**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, 2020. 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, 2020.

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

June 2, 2021

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

For The Year Ended June 30, 2020

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

For The Year Ended June 30, 2020

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, qualified, adverse, or disclaimer</i>]: Unmodified		
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>
21.019	COVID-19 – Coronavirus Relief Fund
14.228	CDBG – Cumberland Hope Community

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, 2020
(Continued)**

Section II: Financial Statement Findings

2020-001 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 2019-001. 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 2020:

- 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, 2020, the fiscal court is aware of at least \$564,848 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.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: From January 2015 through June 30, 2020, over \$7.2 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 \$564,848 is outstanding/delinquent as of June 30, 2020. From the reports that we do receive, this places the county at over a 90% 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 QUESTIONED COSTS
For The Year Ended June 30, 2020
(Continued)

Section II: Financial Statement Findings (Continued)

2020-002 The Harlan County Fiscal Court Did Not Present All Debt Activity In The Financial Statement

This is a repeat finding and was included in the prior year audit report as finding 2019-002. The Harlan County Fiscal Court's fourth quarter financial report did not include the financial activity for a loan for a truck that was later refinanced and an additional three trucks were also purchased with the refinanced loan, causing the road fund to exceed the road line item and the debt service line item budget.

The Harlan County Fiscal Court had financing proceeds that went directly from the lessor to the vendor and were not reported on the 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 report. The fiscal court was not aware the proceeds needed to be reported.

Failure to include all debt activity on the financial statement caused the financial statement to be understated by \$583,400. 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 road line in the road fund to be under budgeted by \$310,156 and the debt service line in the road fund to be under budgeted by 144,021.

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."

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 of Local Government's financial statement presentation requirements, this will also ensure all line items are properly budgeted or amended as needed.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: As stated, the county refinanced a loan to include four dump trucks that were purchased. The purpose of this transaction was to pay only interest (\$15,544.81 by the end of the 18 month lease term) for the use of these dump trucks. The trucks will later be sold to pay the principal payment and in essence, the county has use of 4 dump trucks valued at \$438,478 for 18 months while only paying 3.5% of actual purchase price for the trucks. This transaction allows the taxpayers of Harlan County both the county's use of new equipment, while also saving the taxpayer's dollars by purchasing the trucks at such a discounted rate. 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 institution and vendor 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 the new debt issued and the amount. The County did budget for the repayment of this agreement, which were the only transactions that have 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. This is a repeat comment because the court did not learn of this requirement until Fiscal Year 2021.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2020
(Continued)

Section II: Financial Statement Findings (Continued)

2020-002 The Harlan County Fiscal Court Did Not Present All Debt Activity In The Financial Statement
 (Continued)

Views of Responsible Official and Planned Corrective Action: (Continued):

We have made a similar transaction this fiscal year, and took steps to amend our budget to include the proceeds along with the expenditures of this transaction and they will be presented in both the revenue and expenditure section of the financial statement going forward even though no funds were or will be received or expended through the county treasury.

Section III: Federal Award Findings And Questioned Costs

None.

Section IV: Summary Schedule of Prior Audit Findings

Finding Number	Prior Year Finding Title	Status	Corrective Action
2019-001	The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections	Unresolved	See corrective action for current year finding 2020-001
2019-002	The Harlan County Fiscal Court Did Not Present All Debt Activity In The Financial Statement	Unresolved	See corrective action for current year finding 2020-002

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

HARLAN COUNTY FISCAL COURT

For The Year Ended June 30, 2020

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CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

HARLAN COUNTY FISCAL COURT

For The Year Ended June 30, 2020

The Harlan County Fiscal Court hereby certifies that assistance received from the 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