

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

**For The Year Ended  
June 30, 2021**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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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, 2021, and the related notes to the financial statement, which collectively comprise the Harlan County Fiscal Court's financial statement as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

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

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

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Harlan County Fiscal Court as of June 30, 2021, 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, 2021, 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 as 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  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Dan Mosley, Harlan County Judge/Executive  
Members of the Harlan County Fiscal Court

**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 December 21, 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 solely 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 effectiveness of 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:

- 2021-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections
- 2021-002 The Harlan County Fiscal Court Failed To Obtain Certified Payroll Records To Monitor Davis Bacon Requirements

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

December 21, 2021

**HARLAN COUNTY OFFICIALS****For The Year Ended June 30, 2021****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
Phillip Bianchi	Coroner

**Appointed Personnel:**

Ryan Creech	County Treasurer
Colby Goss	Deputy Judge
Keri Stevans	Administrative Assistant
Alice Hensley	Finance Officer/Time Data Entry Clerk
Stacey Madon	Account Payables



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

**For The Year Ended June 30, 2021**

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

**For The Year Ended June 30, 2021**

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
<b>RECEIPTS</b>			
Taxes	\$ 3,614,452	\$	\$
In Lieu Tax Payments	18,728	1,387	
Excess Fees	39,044		
Licenses and Permits	151,204		
Intergovernmental	2,688,981	1,750,326	2,160,300
Charges for Services	1,532,935		28,251
Miscellaneous	436,719	218,939	106,412
Interest	31,853	13,681	
Total Receipts	<u>8,513,916</u>	<u>1,984,333</u>	<u>2,294,963</u>
<b>DISBURSEMENTS</b>			
General Government	2,643,780	327	
Protection to Persons and Property	397,468		1,851,928
General Health and Sanitation	3,155,795		
Social Services	76,571		
Recreation and Culture	410,085		
Roads		1,185,452	
Airports	155,433		
Debt Service	84,799	437,038	
Capital Projects	2,000		
Administration	1,644,655	348,526	643,567
Total Disbursements	<u>8,570,586</u>	<u>1,971,343</u>	<u>2,495,495</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(56,670)</u>	<u>12,990</u>	<u>(200,532)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Financing Obligation Proceeds		145,422	
Transfers From Other Funds			202,505
Transfers To Other Funds	(342,889)		
Total Other Adjustments to Cash (Uses)	<u>(342,889)</u>	<u>145,422</u>	<u>202,505</u>
Net Change in Fund Balance	(399,559)	158,412	1,973
Fund Balance - Beginning (Restated)	<u>8,491,425</u>	<u>3,028,421</u>	<u>58,470</u>
Fund Balance - Ending	<u>\$ 8,091,866</u>	<u>\$ 3,186,833</u>	<u>\$ 60,443</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 7,941,600	\$ 3,233,668	\$ 106,767
Plus: Deposits In Transit			
Less: Outstanding Checks	(485,099)	(46,835)	(46,324)
Certificates of Deposit	635,365		
Fund Balance - Ending	<u>\$ 8,091,866</u>	<u>\$ 3,186,833</u>	<u>\$ 60,443</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, 2021**  
**(Continued)**

<b>Budgeted Funds</b>					
<b>Local Government Economic Assistance Fund</b>	<b>Federal Grant Fund</b>	<b>Sinking Fund</b>	<b>Local Governmental Economic Development Fund</b>	<b>Airport Fund</b>	<b>Emergency 911 Fund</b>
\$	\$	\$	\$	\$	\$ 222,559
539,865	200,000		1,094,774		261,270
4,990	10	23,521 919			1,818
<u>544,855</u>	<u>200,010</u>	<u>24,440</u>	<u>1,094,774</u>		<u>485,647</u>
44,896			7,216		
67,960			56,079		398,818
207,050	200,000		225,310		
179,812			153,035		
			12,787		
		842,792	125,000		
			32,016		
<u>111,146</u>					<u>7,178</u>
<u>610,864</u>	<u>200,000</u>	<u>842,792</u>	<u>611,443</u>		<u>405,996</u>
<u>(66,009)</u>	<u>10</u>	<u>(818,352)</u>	<u>483,331</u>		<u>79,651</u>
		640,384			
			(500,000)		
		<u>640,384</u>	<u>(500,000)</u>		
(66,009)	10	(177,968)	(16,669)		79,651
<u>1,742,263</u>	<u>99,135</u>	<u>520,727</u>	<u>951,560</u>	<u>90,098</u>	<u>579,972</u>
<u>\$ 1,676,254</u>	<u>\$ 99,145</u>	<u>\$ 342,759</u>	<u>\$ 934,891</u>	<u>\$ 90,098</u>	<u>\$ 659,623</u>
\$ 1,696,839	\$ 99,145	\$ 342,759	\$ 1,019,654	\$ 90,098	\$ 662,972
(20,585)			(84,763)		(3,349)
<u>\$ 1,676,254</u>	<u>\$ 99,145</u>	<u>\$ 342,759</u>	<u>\$ 934,891</u>	<u>\$ 90,098</u>	<u>\$ 659,623</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, 2021**  
**(Continued)**

	<u>Unbudgeted Funds</u>		
	Justice Center		Total Funds
	Public Properties Corporation Fund	Jail Commissary Fund	
<b>RECEIPTS</b>			
Taxes	\$	\$	\$ 3,837,011
In Lieu Tax Payments			20,115
Excess Fees			39,044
Licenses and Permits			151,204
Intergovernmental	665,800		9,361,316
Charges for Services			1,561,186
Miscellaneous		432,634	1,218,225
Interest	1		53,272
Total Receipts	<u>665,801</u>	<u>432,634</u>	<u>16,241,373</u>
<b>DISBURSEMENTS</b>			
General Government			2,696,219
Protection to Persons and Property			2,772,253
General Health and Sanitation			3,788,155
Social Services			229,606
Recreation and Culture		414,085	1,016,769
Roads			1,185,452
Airports			155,433
Debt Service	664,300		2,153,929
Capital Projects			34,016
Administration	1,500		2,756,572
Total Disbursements	<u>665,800</u>	<u>414,085</u>	<u>16,788,404</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1</u>	<u>18,549</u>	<u>(547,031)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Financing Obligation Proceeds			145,422
Transfers From Other Funds			842,889
Transfers To Other Funds			(842,889)
Total Other Adjustments to Cash (Uses)			<u>145,422</u>
Net Change in Fund Balance	1	18,549	(401,609)
Fund Balance - Beginning (Restated)	<u>2,876</u>	<u>123,314</u>	<u>15,688,261</u>
Fund Balance - Ending	<u>\$ 2,877</u>	<u>\$ 141,863</u>	<u>\$ 15,286,652</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 2,877	\$ 156,814	\$ 15,353,193
Plus: Deposits In Transit		8,151	8,151
Less: Outstanding Checks		(23,102)	(710,057)
Certificates of Deposit			<u>635,365</u>
Fund Balance - Ending	<u>\$ 2,877</u>	<u>\$ 141,863</u>	<u>\$ 15,286,652</u>

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

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**HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2021**

**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. The audit of the Harlan County Industrial Development Authority Board can be obtained from the Harlan County Fiscal Court, PO Box 956, Harlan, KY. 40831.

**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, 2021**  
**(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 Corporation 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, 2021**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Information**

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

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

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

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

The state local finance officer does not require the justice center public properties corporation fund to be budgeted. 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, 2021**  
**(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 Obligations**

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

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with 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, 2021, 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      \$46,877

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2021.

	General Fund	Local Governmental Economic Development Fund	Total Transfers In
Jail Fund	\$ 202,505	\$	\$ 202,505
Sinking Fund	140,384	500,000	640,384
Total Transfers Out	<u>\$ 342,889</u>	<u>\$ 500,000</u>	<u>\$ 842,889</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, 2021 was \$226,556.

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, 2021 was \$3,112.

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, 2021 was \$1,104.

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, 2021 was \$4,024.

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2021 was \$11,294.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 5. 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, 2021 was \$527,345.

**Note 6. 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 7. 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, 2021, the principal amount outstanding was \$4,445,000. Debt service requirements for the fiscal years ending June 30, 2022, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 295,000	\$ 207,667
2023	310,000	191,805
2024	330,000	175,030
2025	345,000	157,330
2026	360,000	138,842
2027-2031	1,765,000	408,413
2032-2036	710,000	165,363
2037-2038	330,000	20,345
Totals	<u>\$ 4,445,000</u>	<u>\$ 1,464,795</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placement (Continued)**

**2. 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 an 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, 2021 was \$293,556.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 293,556	\$ 2,495
Totals	<u>\$ 293,556</u>	<u>\$ 2,495</u>

**3. Financing Obligation - Truck**

On June 4, 2021, Harlan County Fiscal Court entered into a lease in the amount of \$145,422 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 3.74% ending on December 20, 2022, to be secured by the truck. The loan called for monthly interest payments with the principal amount being due on December 20, 2022. The balance at June 30, 2021 was \$145,422.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$	\$ 5,847
2023	145,422	2,719
Totals	<u>\$ 145,422</u>	<u>\$ 8,566</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 7. 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, 2021, the principal amount outstanding was \$3,910,000. Debt service requirements for the fiscal years ending June 30, 2022, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 230,000	\$ 110,500
2023	235,000	105,850
2024	240,000	100,500
2025	255,000	94,312
2026	255,000	87,619
2027-2031	1,390,000	319,162
2032-2035	1,305,000	86,694
Totals	<u>\$ 3,910,000</u>	<u>\$ 904,637</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, 2021, is \$2,460,000. Debt service requirements for the fiscal years ending June 30, 2022, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2022	\$ 585,000	\$ 86,100
2023	605,000	65,625
2024	625,000	44,450
2025	645,000	22,575
Totals	<u>\$ 2,460,000</u>	<u>\$ 218,750</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

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

Long-term Debt activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 5,163,478	\$ 145,422	\$ 424,922	\$ 4,883,978	\$ 588,556
Refunding Revenue Bonds	3,020,000		560,000	2,460,000	585,000
General Obligation Notes	4,135,000		225,000	3,910,000	230,000
Total Long-term Debt	<u>\$ 12,318,478</u>	<u>\$ 145,422</u>	<u>\$ 1,209,922</u>	<u>\$ 11,253,978</u>	<u>\$ 1,403,556</u>

**D. Aggregate Debt Schedule**

The amount of required principal and interest payments on long-term obligations at June 30, 2021, were as follows:

Fiscal Year Ended June 30	Other Debt		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2022	\$ 815,000	\$ 196,600	\$ 588,556	\$ 216,009
2023	840,000	171,475	455,422	194,524
2024	865,000	144,950	330,000	175,030
2025	900,000	116,887	345,000	157,330
2026	255,000	87,619	360,000	138,842
2027-2031	1,390,000	319,162	1,765,000	408,413
2032-2036	1,305,000	86,694	710,000	165,363
2037-2038			330,000	20,345
Totals	<u>\$ 6,370,000</u>	<u>\$ 1,123,387</u>	<u>\$ 4,883,978</u>	<u>\$ 1,475,856</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 8. 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 2021, the county leased 23 vehicles with a total lease outstanding lease balance of \$353,152 as of June 30, 2021. The lease payments required under the leasing agreement for the fiscal years ending June 30, 2022, and thereafter are as follows:

Fiscal Year Ending June 30	Amount
2022	\$ 117,920
2023	97,554
2024	94,607
2025	35,813
2026	<u>7,258</u>
Totals	<u>\$ 353,152</u>

**Note 9. 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, 2021, the ending principal balance of the loan was \$113,616.

**Note 10. 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.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 10. Conduit Debt (Continued)**

**A. The Laurels Addition Project (Continued)**

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, 2021, the outstanding principal balance due was \$840,000.

**B. Black Mountain Utility District - Collateral Deposit Account**

On June 16, 2015, the Harlan County Fiscal Court entered into an assignment of deposit account with the Black Mountain Utility District, Baxter, Kentucky, and the Bank of Harlan, Harlan, Kentucky in the amount of \$150,000. This assignment of deposit was renewed on 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. The certificate of deposit held by the Monticello Banking Company for the Harlan County Fiscal Court for collateral for Black Mountain Utility District totaling \$150,000 was decreased to \$107,624 with an updated Commercial Security Agreement issued on July 1, 2020. As of June 30, 2021, the balance in the certificate of deposit account held for collateral was \$108,020 and Black Mountain Utility Districts loan balance on the line of credit is \$101,405.

**Note 11. 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, 2021, the county maintained \$0 for employees.

**Note 12. 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. Effective April 1, 2021, the Kentucky Retirement Systems as an agency of the Commonwealth is now known as the Kentucky Public Pensions Authority (KPPA). The governance of CERS has been transferred to a separate 9-member board of trustees that is responsible for the governance of the CERS pension and insurance plans.

The county's contribution for FY 2019 was \$748,667, FY 2020 was \$795,357, and FY 2021 was \$842,262.



**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 12. Employee Retirement System (Continued)**

Nonhazardous

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

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for nonhazardous employees was 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:

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

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 12. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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.

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, KPPA 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.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 12. Employee Retirement System (Continued)**

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 Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KPPA 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 13. 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.

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 14. Insurance**

For the fiscal year ended June 30, 2021, the Harlan County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2021**  
**(Continued)**

**Note 15. Prior Period Adjustments**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>	<u>Emergency 911 Fund</u>
Fund Balance - Beginning	\$ 8,491,423	\$3,028,422	\$ 58,466	\$ 1,742,264	\$ 579,973
Rounding	<u>2</u>	<u>(1)</u>	<u>4</u>	<u>(1)</u>	<u>(1)</u>
Fund Balance - Beginning (Restated)	<u>\$ 8,491,425</u>	<u>\$3,028,421</u>	<u>\$ 58,470</u>	<u>\$ 1,742,263</u>	<u>\$ 579,972</u>

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

**For The Year Ended June 30, 2021**

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

**For The Year Ended June 30, 2021**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 3,373,000	\$ 3,373,000	\$ 3,614,452	\$ 241,452
In Lieu Tax Payments	200	200	18,728	18,528
Excess Fees			39,044	39,044
Licenses and Permits	161,000	161,000	151,204	(9,796)
Intergovernmental	5,500,330	5,500,330	2,688,981	(2,811,349)
Charges for Services	1,394,500	1,394,500	1,532,935	138,435
Miscellaneous	181,000	181,000	436,719	255,719
Interest	35,000	35,000	31,853	(3,147)
Total Receipts	<u>10,645,030</u>	<u>10,645,030</u>	<u>8,513,916</u>	<u>(2,131,114)</u>
<b>DISBURSEMENTS</b>				
General Government	3,121,885	3,291,473	2,643,780	647,693
Protection to Persons and Property	746,164	1,157,164	397,468	759,696
General Health and Sanitation	2,182,100	3,334,100	3,155,795	178,305
Social Services	2,922,000	2,334,200	76,571	2,257,629
Recreation and Culture	2,458,000	1,289,272	410,085	879,187
Airports	300,000	300,000	155,433	144,567
Debt Service	79,200	88,700	84,799	3,901
Capital Projects	2,000	2,000	2,000	
Administration	1,888,116	1,902,556	1,644,655	257,901
Total Disbursements	<u>13,699,465</u>	<u>13,699,465</u>	<u>8,570,586</u>	<u>5,128,879</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,054,435)</u>	<u>(3,054,435)</u>	<u>(56,670)</u>	<u>2,997,765</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(791,386)	(791,386)	(342,889)	448,497
Total Other Adjustments to Cash (Uses)	<u>(791,386)</u>	<u>(791,386)</u>	<u>(342,889)</u>	<u>448,497</u>
Net Change in Fund Balance	(3,845,821)	(3,845,821)	(399,559)	3,446,262
Fund Balance - Beginning (Restated)	3,845,821	3,845,821	8,491,425	4,645,604
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,091,866</u>	<u>\$ 8,091,866</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
In Lieu Tax Payments	\$ 2,000	\$ 2,000	\$ 1,387	\$ (613)
Intergovernmental	1,547,890	1,627,890	1,750,326	122,436
Miscellaneous		146,000	218,939	72,939
Interest	12,000	12,000	13,681	1,681
Total Receipts	<u>1,561,890</u>	<u>1,787,890</u>	<u>1,984,333</u>	<u>196,443</u>
<b>DISBURSEMENTS</b>				
General Government		328	327	1
Roads	1,289,130	1,557,060	1,185,452	371,608
Debt Service	175,000	454,922	437,038	17,884
Administration	430,900	381,400	348,526	32,874
Total Disbursements	<u>1,895,030</u>	<u>2,393,710</u>	<u>1,971,343</u>	<u>422,367</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(333,140)</u>	<u>(605,820)</u>	<u>12,990</u>	<u>618,810</u>
<b>Other Adjustments to Cash (Uses)</b>				
Financing Obligation Proceeds		145,422	145,422	
Total Other Adjustments to Cash (Uses)		<u>145,422</u>	<u>145,422</u>	
Net Change in Fund Balance	(333,140)	(460,398)	158,412	618,810
Fund Balance - Beginning (Restated)	<u>333,140</u>	<u>540,398</u>	<u>3,028,421</u>	<u>2,488,023</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 80,000</u>	<u>\$ 3,186,833</u>	<u>\$ 3,106,833</u>



**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,980,000	\$ 1,980,000	\$ 2,160,300	\$ 180,300
Charges for Services	28,700	28,700	28,251	(449)
Miscellaneous	104,500	104,500	106,412	1,912
Total Receipts	<u>2,113,200</u>	<u>2,113,200</u>	<u>2,294,963</u>	<u>181,763</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,072,000	2,121,000	1,851,928	269,072
Administration	832,586	783,586	643,567	140,019
Total Disbursements	<u>2,904,586</u>	<u>2,904,586</u>	<u>2,495,495</u>	<u>409,091</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(791,386)</u>	<u>(791,386)</u>	<u>(200,532)</u>	<u>590,854</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	791,386	791,386	202,505	(588,881)
Total Other Adjustments to Cash (Uses)	<u>791,386</u>	<u>791,386</u>	<u>202,505</u>	<u>(588,881)</u>
Net Change in Fund Balance			1,973	1,973
Fund Balance - Beginning (Restated)			<u>58,470</u>	<u>58,470</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 60,443</u>	<u>\$ 60,443</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 385,000	\$ 385,000	\$ 539,865	\$ 154,865
Interest	5,000	5,000	4,990	(10)
Total Receipts	<u>390,000</u>	<u>390,000</u>	<u>544,855</u>	<u>154,855</u>
<b>DISBURSEMENTS</b>				
General Government	62,500	57,891	44,896	12,995
Protection to Persons and Property	70,000	70,000	67,960	2,040
General Health and Sanitation	216,800	219,100	207,050	12,050
Recreation and Culture	165,000	181,559	179,812	1,747
Administration	126,800	112,550	111,146	1,404
Total Disbursements	<u>641,100</u>	<u>641,100</u>	<u>610,864</u>	<u>30,236</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(251,100)</u>	<u>(251,100)</u>	<u>(66,009)</u>	<u>185,091</u>
Net Change in Fund Balance	(251,100)	(251,100)	(66,009)	185,091
Fund Balance - Beginning (Restated)	<u>251,100</u>	<u>251,100</u>	<u>1,742,263</u>	<u>1,491,163</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,676,254</u>	<u>\$ 1,676,254</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>FEDERAL GRANT FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 720,000	\$ 720,000	\$ 200,000	\$ (520,000)
Interest	12	12	10	(2)
Total Receipts	<u>720,012</u>	<u>720,012</u>	<u>200,010</u>	<u>(520,002)</u>
<b>DISBURSEMENTS</b>				
General Health and Sanitation	815,012	815,012	200,000	615,012
Total Disbursements	<u>815,012</u>	<u>815,012</u>	<u>200,000</u>	<u>615,012</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(95,000)</u>	<u>(95,000)</u>	<u>10</u>	<u>95,010</u>
Net Change in Fund Balance	(95,000)	(95,000)	10	95,010
Fund Balance - Beginning	<u>95,000</u>	<u>95,000</u>	<u>99,135</u>	<u>4,135</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 99,145</u>	<u>\$ 99,145</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>SINKING FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Miscellaneous	\$		\$ 23,521	\$ 23,521
Interest		1,000	919	(81)
Total Receipts		<u>1,000</u>	<u>24,440</u>	<u>23,440</u>
<b>DISBURSEMENTS</b>				
Debt Service		848,000	842,792	5,208
Total Disbursements		<u>848,000</u>	<u>842,792</u>	<u>5,208</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(847,000)</u>	<u>(818,352)</u>	<u>28,648</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds		500,000	640,384	140,384
Total Other Adjustments to Cash (Uses)		<u>500,000</u>	<u>640,384</u>	<u>140,384</u>
Net Change in Fund Balance		(347,000)	(177,968)	169,032
Fund Balance - Beginning		<u>347,000</u>	<u>520,727</u>	<u>173,727</u>
Fund Balance - Ending	\$	<u>0</u>	\$ 342,759	\$ 342,759

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,403,000	\$ 1,403,000	\$ 1,094,774	\$ (308,226)
Total Receipts	<u>1,403,000</u>	<u>1,403,000</u>	<u>1,094,774</u>	<u>(308,226)</u>
<b>DISBURSEMENTS</b>				
General Government	150,000	125,000	7,216	117,784
Protection to Persons and Property	66,000	66,000	56,079	9,921
General Health and Sanitation	700,000	725,000	225,310	499,690
Social Services	203,000	203,000	153,035	49,965
Recreation and Culture	77,000	77,000	12,787	64,213
Debt Service	125,000	125,000	125,000	
Capital Projects	82,000	82,000	32,016	49,984
Total Disbursements	<u>1,403,000</u>	<u>1,403,000</u>	<u>611,443</u>	<u>791,557</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>483,331</u>	<u>483,331</u>
<b>Other Adjustments to Cash (Uses)</b>				
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)	(16,669)	483,331
Fund Balance - Beginning	<u>500,000</u>	<u>500,000</u>	<u>951,560</u>	<u>451,560</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 934,891</u>	<u>\$ 934,891</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>AIRPORT FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>DISBURSEMENTS</b>				
Airports	\$ 90,000	\$ 90,000	\$	\$ 90,000
Total Disbursements	90,000	90,000		90,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(90,000)	(90,000)		90,000
Net Change in Fund Balance	(90,000)	(90,000)		90,000
Fund Balance - Beginning	90,000	90,000	90,098	98
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 90,098</u>	<u>\$ 90,098</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2021**  
**(Continued)**

	<b>EMERGENCY 911 FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 216,000	\$ 216,000	\$ 222,559	\$ 6,559
Intergovernmental	240,000	240,000	261,270	21,270
Interest	1,500	1,500	1,818	318
Total Receipts	<u>457,500</u>	<u>457,500</u>	<u>485,647</u>	<u>28,147</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	469,000	489,422	398,818	90,604
Administration	29,267	8,845	7,178	1,667
Total Disbursements	<u>498,267</u>	<u>498,267</u>	<u>405,996</u>	<u>92,271</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(40,767)</u>	<u>(40,767)</u>	<u>79,651</u>	<u>120,418</u>
Net Change in Fund Balance	(40,767)	(40,767)	79,651	120,418
Fund Balance - Beginning (Restated)	<u>40,767</u>	<u>40,767</u>	<u>579,972</u>	<u>539,205</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 659,623</u>	<u>\$ 659,623</u>

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

**June 30, 2021**

**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. Road Fund Budget**

The road fund final budget was not balanced due to an error. The final budget was out of balance by \$80,000.



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

**For The Year Ended June 30, 2021**

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

**For The Year Ended June 30, 2021**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<b><u>U. S. Department of the Treasury</u></b>				
<i>Passed-Through Kentucky Department for Local Government</i>				
COVID-19 Coronavirus Relief Fund (CARES)	21.019	Not Available	\$	\$ 822,143
<b>Total U.S. Department of the Treasury</b>			<u>\$</u>	<u>822,143</u>
<b><u>U. S. Department of Housing and Urban Development</u></b>				
<i>Passed-Through Kentucky Department for Local Government</i>				
Community Development Block Grant (CDBG) - Cumberland Hope Community	14.228	18-052	\$	\$ 200,000
<b>Total U.S. Department of Housing and Urban Development</b>			<u>\$</u>	<u>200,000</u>
<b><u>U. S. Department of Homeland Security</u></b>				
<i>Passed-Through Kentucky Emergency Management</i>				
Federal Disaster Assistance to Individuals and Households in Presidential Declared Disaster Areas (FEMA)	97.048	Not Available	\$	\$ 23,436
Emergency Management Performance Grant	97.042	Not Available		32,691
<b>Total U.S. Department of Homeland Security</b>			<u>\$</u>	<u>56,127</u>
<b><u>Executive Office of the President</u></b>				
<i>Passed-Through Appalachia High Intensity Drug Trafficking Areas (HIDTA)</i>				
High Intensity Drug Trafficking Areas Program (HIDTA)	95.001	Not Available	\$	\$ 21,373
<b>Total Executive Office of the President</b>			<u>\$</u>	<u>21,373</u>
<b><u>U. S. Department of the Interior</u></b>				
<i>Passed-Through Kentucky Department for Local Government:</i>				
Abandoned Mine Land Reclamation (AMLR)	15.252	Not Available	\$	\$ 37,355
<b>Total U.S. Department of the Interior</b>			<u>\$</u>	<u>37,355</u>

The accompanying notes are an integral part of this schedule.

**HARLAN COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2021**  
**(Continued)**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<b><u>U. S. Department of Transportation</u></b>				
<i>Passed-Through Federal Aviation Administration:</i>				
Airport Improvement Program	20.106	Not Available	\$	\$ 135,425
<b>Total U.S. Department of Transportation</b>			<u>\$</u>	<u>\$ 135,425</u>
<b><u>U.S. Department of Defense</u></b>				
<i>Passed-Through US Army Corps of Engineers:</i>				
Martins Fork Lake Patrol	12.U01	W912P519P0001	\$	\$ 5,000
Section 531 Program	12.U02	6FQY2	<u>\$</u>	<u>\$ 825,000</u>
<b>Total U.S. Department of Defense</b>			<u>\$</u>	<u>\$ 830,000</u>
<b><u>U.S. Department of Agriculture</u></b>				
<i>Passed-Through The Center For Rural Development:</i>				
Rural Economic Development Loans and Grants	10.854	Not Available	\$	\$ 7,500
<b>Total U.S. Department of Agriculture</b>			<u>\$</u>	<u>\$ 7,500</u>
Total Expenditures of Federal Awards			<u>\$ 0</u>	<u>\$ 2,109,922</u>

The accompanying notes are an integral part of this schedule.

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

**June 30, 2021**

**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, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Harlan County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Harlan County, Kentucky.

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

Expenditures reported on the Schedule are reported on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**Note 3. Indirect Cost Rate**

Harlan County has not adopted an indirect cost rate and has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

**For The Year Ended June 30, 2021**

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

**For The Year Ended June 30, 2021**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles & Equipment	\$ 2,883,388	\$ 88,161	\$	\$ 2,971,549
Other Equipment	1,113,120	218,750		1,331,870
Land and Land Improvements	3,010,007	150,000		3,160,007
Buildings	21,434,618	171,784		21,606,402
Infrastructure	26,676,760	204,258		26,881,018
 Total Capital Assets	 <u>\$ 55,117,893</u>	 <u>\$ 832,953</u>	 <u>\$ 0</u>	 <u>\$ 55,950,846</u>

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

**June 30, 2021**

**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, 2021, and the related notes to the financial statement which collectively comprise the Harlan County Fiscal Court's financial statement and have issued our report thereon dated December 21, 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 have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001 to be a material weakness.



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

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Harlan County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001.

**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,

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

Mike Harmon  
Auditor of Public Accounts

December 21, 2021

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH THE 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 The 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, 2021. 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 The 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, 2021.

### **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 to determine the auditing 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 a 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-002 that we consider to be a significant deficiency.


The Harlan County Fiscal Court's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Harlan County Fiscal Court's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

**Report on Internal Control over Compliance (Continued)**

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,

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

Mike Harmon  
Auditor of Public Accounts

December 21, 2021

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

**For The Year Ended June 30, 2021**

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

**For The Year Ended June 30, 2021**

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

***Financial Statement***

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: 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 checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs: Unmodified		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input checked="" type="checkbox"/> Yes	<input 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
12.U02	Section 531 Program

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

**HARLAN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2021  
(Continued)**

**Section II: Financial Statement Findings**

2021-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections

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This is a repeat finding and was included in the prior year audit report as finding 2020-001. 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 2021:

- 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, 2021, the fiscal court is aware of at least \$589,813 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, 2021, over \$8.7 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 \$589,813 is outstanding/delinquent as of June 30, 2021. 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, 2021  
(Continued)**

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

2021-002 The Harlan County Fiscal Court Failed To Obtain Certified Payroll Records To Monitor Davis Bacon Requirements

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*Federal Program:* Assistance Listing #12.U02 Section 531 Program

*Award Number and Year:* 2021

*Name of Federal Agency and Pass-Through Agency:* U.S. Department of Defense Passed-Through U.S. Army Corps of Engineers

*Compliance Requirements:* Special Tests and Provisions

*Type of Finding:* Significant Deficiency

*Amount of Questioned Cost:* None

*Opinion Modification:* No

The fiscal court failed to implement adequate monitoring controls over the Special Tests and Provisions - Davis Bacon requirement. The fiscal court contracted with a third party that oversaw the planning, design, inspection services, environmental services, and construction administration for the project. The contractor did not submit weekly, when work was performed, a copy of the payroll and a statement of compliance to the fiscal court. The fiscal court did not monitor the third party contractor as required to ensure that the federal requirement was met. During single audit testing, auditors obtained certified payroll records from the contractor and concluded that Davis Bacon wages were paid for the project.

The county stated that the grant did not require the payroll documentation within the reimbursement requests, thus the reason the county was not monitoring the payroll for the Davis Bacon requirement. When grantees do not monitor federal grant requirements, they cannot ensure that federal grant compliance requirements are adhered to. This could result in noncompliance with the federal grant agreement and affect the county's ability to receive federal funds in the future

Per the grant contract Article I – Definitions I, “The term “sufficient invoice” shall mean documentation provided by the Non-Federal Sponsors containing the following: (1) a written certification by the Non-Federal Sponsors to the Government that it has made specified payments to contractors, suppliers, or employees for performance of work in accordance with this Agreement, or a written certification by the Non-Federal Sponsors to the Government that it has received bills from contractors, suppliers, or employees for performance of work in accordance with this Agreement; (2) copies of all relevant invoices and evidence of such payments or bills received; (3) written identification of such costs that have been paid with Federal program funds and a copy of the written verification from the Federal agency that provided the funds; and (4) a written request for reimbursement for the amount of such specified payments or bills received.”

Per the grant contract Article II – Obligation of the Government and the Non-Federal Sponsors C-4, “In performance of all work for the Project, the Non-Federal Sponsors must comply with applicable Federal labor laws covering non-Federal construction, including, but not limited to, 40 U.S.C 3141-3148 and 40 U.S.C 3701-3708 (labor standards originally enacted as the Davis-Bacon Act, the Contract Work Hours and Safety Standards Act, and the Copeland Anti-Kickback Act). Notwithstanding any other provision of this agreement, inclusion of costs for construction in total project costs may be withheld, in whole or in part, as a result of the Non-Federal Sponsors’ failure to comply with their obligations under these laws.”

Uniform Guidance 2 CFR §200.303 states, in part, “The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

**HARLAN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2021  
(Continued)**

**Section III: Federal Award Findings And Questioned Costs (Continued)**

2021-002 The Harlan County Fiscal Court Failed To Obtain Certified Payroll Records To Monitor Davis Bacon Requirements (Continued)

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According to 29 CFR part 5 “non-federal entities shall include in their construction contracts subject to the Wage Rate Requirements a provision that the contractor or subcontractor comply with those requirements and the Department of Labor (DOL) regulations. This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payroll).”

We recommend the fiscal court implement adequate monitoring controls and obtain certified payroll records to ensure compliance with Davis Bacon compliance requirement. Also, we recommend the fiscal court ensure compliance with the federal grant agreement requirements and with applicable federal, state, and local laws.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive’s Response: Going forward, any vendor participating in a project that must meet the Davis Bacon requirement will be required to submit weekly certified payrolls to any third party contractor overseeing the project, as well as with their pay estimates so the county can monitor the requirement has been met. As the comment mentions above, certified payroll records were received from the contractor and Davis Bacon wages were paid for the project.*

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

Finding Number	Prior Year Finding Title	Status	Corrective Action
2020-001	The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections	Unresolved	See corrective action for current year finding 2021-001
2020-002	The Harlan County Fiscal Court Did Not Present All Debt Activity In The Financial Statement	Resolved	

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

**HARLAN COUNTY FISCAL COURT**

**For The Year Ended June 30, 2021**

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CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE *AND DEVELOPMENT PROGRAM*

HARLAN COUNTY FISCAL COURT

For The Year Ended June 30, 2021

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

  
\_\_\_\_\_

County Judge/Executive

  
\_\_\_\_\_

County Treasurer