

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

**For The Fiscal Year Ended
June 30, 2015**



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

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Harlan County Fiscal Court for fiscal year ended June 30, 2015.

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

Financial Condition:

The Harlan County Fiscal Court had total receipts of \$19,279,428 and disbursements of \$15,913,332 in fiscal year 2015. This resulted in a total ending fund balance of \$16,336,981, which is an increase of \$3,366,096 from the prior year.

Report Comments:

- 2015-001 The Jailer Did Not Maintain Supporting Documentation For Sales Tax Payments, Did Not Submit One Sales Tax Report Timely, And Did Not Resolve Unpaid Sales Taxes For Fiscal Year 2014
- 2015-002 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections
- 2015-003 The Harlan County Fiscal Court Insured Assets For Other Legally Separate Entities
- 2015-004 The Harlan County Fiscal Court Did Not Have Adequate Internal Controls Over The Payroll Process

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Dan Mosley, Harlan County Judge/Executive
Members of the Harlan County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Harlan County Fiscal Court, for the year ended June 30, 2015, 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 more fully 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, 2015, 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, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

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Other Reporting Required by *Government Auditing Standards*

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

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2015-001 The Jailer Did Not Maintain Supporting Documentation For Sales Tax Payments, Did Not Submit One Sales Tax Report Timely, And Did Not Resolve Unpaid Sales Taxes For Fiscal Year 2014
- 2015-002 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections
- 2015-003 The Harlan County Fiscal Court Insured Assets For Other Legally Separate Entities
- 2015-004 The Harlan County Fiscal Court Did Not Have Adequate Internal Controls Over The Payroll Process

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 9, 2017

HARLAN COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

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

Other Elected Officials:

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

Appointed Personnel:

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

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 4,279,287	\$	\$
In Lieu Tax Payments		1,734	
Excess Fees	41,768		
Licenses and Permits	194,257		
Intergovernmental	1,667,185	3,042,767	1,938,224
Charges for Services	1,232,165		30,181
Miscellaneous	653,878	20,451	157,561
Interest	10,523	4,082	
Total Receipts	<u>8,079,063</u>	<u>3,069,034</u>	<u>2,125,966</u>
DISBURSEMENTS			
General Government	2,321,298		
Protection to Persons and Property	169,967	91,535	1,929,396
General Health and Sanitation	1,458,644		
Social Services	30,995		
Recreation and Culture	84,258		
Airports	157,236		
Roads		1,828,153	
Debt Service	35,884		
Capital Projects	2,000		
Administration	1,540,210	369,909	600,243
Total Disbursements	<u>5,800,492</u>	<u>2,289,597</u>	<u>2,529,639</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>2,278,571</u>	<u>779,437</u>	<u>(403,673)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	4	371,708	448,404
Transfers To Other Funds	(448,404)		
Total Other Adjustments to Cash (Uses)	<u>(448,400)</u>	<u>371,708</u>	<u>448,404</u>
Net Change in Fund Balance	1,830,171	1,151,145	44,731
Fund Balance - Beginning (Restated)	3,493,446	2,874,464	
Fund Balance - Ending	<u>\$ 5,323,617</u>	<u>\$ 4,025,609</u>	<u>\$ 44,731</u>
Composition of Fund Balance			
Bank Balance	\$ 4,706,419	\$ 4,025,609	\$ 44,731
Less: Outstanding Checks	467,198		
Certificates of Deposit	150,000		
Fund Balance - Ending	<u>\$ 5,323,617</u>	<u>\$ 4,025,609</u>	<u>\$ 44,731</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, 2015
(Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	Federal Grant Fund	Sinking Fund	Local Government Economic Development Fund	Emergency 911 Fund
\$	\$	\$	\$	\$ 136,974
1,460,698	248,750		3,067,013	151,489
20,908		33,000		13,305
2,010	12	1,307		154
<u>1,483,616</u>	<u>248,762</u>	<u>34,307</u>	<u>3,067,013</u>	<u>301,922</u>
65,643			25,276	
60,963			68,570	425,678
547,379	248,750		1,215,058	
			166,423	
290,153			82,495	
		798,136	239,065	
			66,006	
133,938				1,035
<u>1,098,076</u>	<u>248,750</u>	<u>798,136</u>	<u>1,862,893</u>	<u>426,713</u>
385,540	12	(763,829)	1,204,120	(124,791)
		700,000		
(1,071,708)		(4)		
<u>(1,071,708)</u>		<u>699,996</u>		
(686,168)	12	(63,833)	1,204,120	(124,791)
2,498,322	116,066	916,388	2,226,167	719,209
<u>\$ 1,812,154</u>	<u>\$ 116,078</u>	<u>\$ 852,555</u>	<u>\$ 3,430,287</u>	<u>\$ 594,418</u>
\$ 1,812,154	\$ 116,078	\$ 852,555	\$ 3,430,287	\$ 594,418
<u>\$ 1,812,154</u>	<u>\$ 116,078</u>	<u>\$ 852,555</u>	<u>\$ 3,430,287</u>	<u>\$ 594,418</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, 2015
(Continued)

	<u>Unbudgeted Funds</u>		
	Justice Center Public Properties Corporation Refunding Revenue Bonds - 2010 Series Fund	Jail Commissary Fund	Total Funds
RECEIPTS			
Taxes	\$	\$	\$ 4,416,261
In Lieu Tax Payments			1,734
Excess Fees			41,768
Licenses and Permits			194,257
Intergovernmental	664,975	.	12,241,101
Charges for Services			1,262,346
Miscellaneous		204,769	1,103,872
Interest	1		18,089
Total Receipts	<u>664,976</u>	<u>204,769</u>	<u>19,279,428</u>
DISBURSEMENTS			
General Government			2,412,217
Protection to Persons and Property			2,746,109
General Health and Sanitation			3,469,831
Social Services			197,418
Recreation and Culture		194,061	650,967
Airports			157,236
Roads			1,828,153
Debt Service	664,975		1,738,060
Capital Projects			68,006
Administration			2,645,335
Total Disbursements	<u>664,975</u>	<u>194,061</u>	<u>15,913,332</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1</u>	<u>10,708</u>	<u>3,366,096</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			1,520,116
Transfers To Other Funds			(1,520,116)
Total Other Adjustments to Cash (Uses)			<u></u>
Net Change in Fund Balance	1	10,708	3,366,096
Fund Balance - Beginning (Restated)	2,544	124,279	12,970,885
Fund Balance - Ending	<u>\$ 2,545</u>	<u>\$ 134,987</u>	<u>\$ 16,336,981</u>
Composition of Fund Balance			
Bank Balance	\$ 2,545	\$ 134,987	\$ 15,719,783
Less: Outstanding Checks			467,198
Certificates of Deposit			150,000
Ending Fund Balance	<u>\$ 2,545</u>	<u>\$ 134,987</u>	<u>\$ 16,336,981</u>

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

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HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

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 required components of the reporting entity.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

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

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

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

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 Refunding Revenue Bonds - 2010 Series Fund - The purpose of this fund is to account for debt service requirements of the Justice Center Public Properties Corporation refunding revenue bonds. The Department for Local Government does not require the fiscal court to budget these funds.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

D. Budgetary Information

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

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

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

The State Local Finance Officer does not require the Justice Center Public Properties Corporation Refunding Revenue Bonds - 2010 Series Fund to be budgeted.

E. Harlan County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Harlan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Harlan County Fiscal Court.

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

F. Deposits and Investments

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

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

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

H. Related Organizations

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

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	LGEA Fund	Sinking Fund	Total Transfers In
General Fund	\$	\$	\$ 4	\$ 4
Road Fund		371,708		371,708
Jail Fund	448,404			448,404
Sinking Fund		700,000		700,000
Total Transfers Out	<u>\$ 448,404</u>	<u>\$ 1,071,708</u>	<u>\$ 4</u>	<u>\$ 1,520,116</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 3. Transfers (Continued)

Reason for transfers:

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

Note 4. Trust Funds

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

The fiscal court has the following trust funds:

Louellen Escrow Fund - The fund is held by the Harlan County Fiscal Court for the Army Corps of Engineers for sewer projects located in Harlan County. The balance in the Louellen escrow fund as of June 30, 2015 was \$226,432.

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, 2015 was \$3,110.

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, 2015 was \$1,103.

City of Cumberland Hazard Mitigation Project - This fund is jointly held by the Harlan County Fiscal Court and a local banking institution for the City of Cumberland for assistance with various hazard mitigation activities to prevent flood damage, including but not limited to retrofitting sewage lift stations, construction of sewer lines, construction of concrete box culverts and ditching, installing weather warning sirens and installing generators. The balance in the City of Cumberland hazard mitigation project as of June 30, 2015 was \$117,745.

Horse Trails Escrow Fund - This fund is held by the Harlan County Fiscal Court for the Kentucky State Nature Preserves Commission, Kentucky Division of Water, and the Kentucky Department of Fish and Wildlife Reserves for management of equine trail access in Harlan County. The balance of the horse trails escrow fund in the amount of \$20,042 was transferred to the local government economic assistance fund on February 12, 2015 leaving a balance of \$0 as of June 30, 2015.

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2015 was \$3,259.

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

On May 18, 2006, the fiscal court entered into an installment promissory note for property located at Lynch, Kentucky. The fiscal court has remitted debt payments accordingly, as described in Note 9E. Although no formal written agreement existed between the fiscal court and the Harlan County Industrial Development Authority (IDA) board at the time the debt agreement was signed, the two entities later signed an agreement on May 22, 2009, memorializing the intent and practice of the parties, retroactive in formality to May 2, 2005.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

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

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

Note 6. Reserved For Youth Activities And Facilities

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

Note 7. Landfill Escrow Account

This account was the result of a settlement reached between the State of Kentucky and Harlan County Fiscal Court to cover the costs of cleaning up violations associated with a landfill operated by the county. The money in this account was used for the purposes of cleaning up the landfill. Money was deposited and the state withdrew money as needed. As of June 30, 2015, the landfill is non-operational and the remaining balance in the account is \$43,193.

Note 8. Legal Contingencies

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

Note 9. Long-term Debt

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

On October 26, 2009, the Harlan County Fiscal Court entered into a KACo lease financing agreement in the amount of \$5,000,000 for the construction of sewer and water lines. Prior to receiving the lease proceeds, the county paid for the sewer and waterline construction expenses with monies from the county's general checking account. When the lease proceeds were received they were deposited into a leasing bank account at KACo and were used to make lease principal and interest payments on the lease through June 30, 2013, and subsequently through October 2013. The remaining balance of \$3,947,131 in the KACo leasing account was transferred to reimburse the general checking account on October 3, 2013. The principal and interest payments are due on the 20th day of each month. The obligation is scheduled to be paid off in May 2030. The principal balance as of June 30, 2015, is \$3,390,271. Debt service requirements for the fiscal years ending June 30, 2016 and thereafter are as follows:

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 9. Long-term Debt (Continued)

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

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 165,179	\$ 142,656
2017	172,392	135,443
2018	179,851	127,984
2019	187,691	120,144
2020	195,705	112,131
2021-2025	1,113,400	425,775
2026-2030	1,376,053	163,123
Totals	<u>\$ 3,390,271</u>	<u>\$ 1,227,256</u>

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

On September 25, 2007, the Harlan County Fiscal Court entered into a Kentucky Area Development District (KADD) financing agreement, Series 2007, in the amount of \$2,860,000 for the construction of sewer lines. Principal payments are due annually on September 20 and interest payments are due semiannually on March 20 and September 20. The obligation is scheduled to be paid off in September 2037. The principal balance as of June 30, 2015, is \$2,500,000. Debt service requirements for the fiscal years ending June 30, 2016 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 60,000	\$ 124,032
2017	65,000	121,250
2018	65,000	118,325
2019	70,000	115,200
2020	75,000	111,756
2021-2025	425,000	500,833
2026-2030	535,000	381,826
2031-2035	695,000	224,669
2036-2038	510,000	40,428
Totals	<u>\$ 2,500,000</u>	<u>\$ 1,738,319</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 9. Long-term Debt (Continued)

C. Detention Center General Obligation Bond - 2013 Series

On May 7, 2013, the county issued \$5,350,000 in 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 to 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, 2015, the principal amount outstanding was \$5,205,000. Debt service requirements for the fiscal years ending June 30, 2016 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 210,000	\$ 132,900
2017	210,000	130,538
2018	215,000	127,613
2019	215,000	123,850
2020	220,000	119,500
2021-2025	1,185,000	526,212
2026-2030	1,350,000	359,944
2031-2035	1,600,000	133,531
Totals	<u>\$ 5,205,000</u>	<u>\$ 1,654,088</u>

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

On November 23, 2010, the Harlan County Fiscal Court issued revenue bonds for the purpose of advanced refunding of the First Mortgage Revenue Bonds, Series 2002 associated with the Justice Center Project. The principal amount of the refunding bonds when issued was \$6,865,000 and interest varies from 2% to 3.5%. Interest payments are due each March 1 and each September 1 until March 2025. Principal payments are due with the March interest payment beginning in 2013. The principal balance at June 30, 2015 is \$5,590,000. Debt service requirements for the fiscal years ending June 30, 2016 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 485,000	\$ 178,975
2017	495,000	166,850
2018	510,000	152,000
2019	530,000	136,700
2020	550,000	120,800
2021-2025	3,020,000	323,050
Totals	<u>\$ 5,590,000</u>	<u>\$ 1,078,375</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 9. Long-term Debt (Continued)

E. Industrial Development Authority Building

On May 2, 2005, the Harlan Fiscal Court entered into an agreement to make payments on behalf of the Industrial Development Authority (IDA). Principal and interest payments on the variable rate bank loan are due monthly until June 7, 2017. The Industrial Development Authority (IDA) paid the remaining balance of the bank loan on October 22, 2014 leaving a principal balance of \$0 as June 30, 2015.

F. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Kentucky Association of Counties (KACO) Lease Trust Program - Series 2008	\$ 3,548,732	\$	\$ 158,461	\$ 3,390,271	\$ 165,179
Kentucky Area Development District (KADD) Lease - 2007 Issue	2,560,000		60,000	2,500,000	60,000
Detention Center General Obligation Bond - 2013 Series	5,260,000		55,000	5,205,000	210,000
Justice Center Public Properties Corporation Refunding Revenue Bonds - 2010 Series	6,065,000		475,000	5,590,000	485,000
Industrial Development Authority Building	99,379		99,379		
Total Long-term Debt	<u>\$ 17,533,111</u>	<u>\$</u>	<u>\$ 847,840</u>	<u>\$ 16,685,271</u>	<u>\$ 920,179</u>

Note 10. Contingent Liabilities

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

On October 18, 2012, the Harlan County Fiscal Court voted to enter into an agreement for a line of credit in the amount of \$500,000 on behalf of the City of Cumberland. The line of credit is intended to be used for financing federal grant projects located in the City of Cumberland. During fiscal year 2015, the fiscal court expended \$26,838 for interest payments and \$50 for a loan extension fee. As of June 30, 2015, the ending principal balance of the line of credit was \$340,824.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 10. Contingent Liabilities (Continued)

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

On May 15, 2012, the Harlan County Fiscal Court, for and on behalf of the Harlan County Outdoor Recreation Board Authority (HCORBA), entered into a mortgage agreement with the Harlan Revitalization Association for \$175,000 for financing of a zip-line located at the Black Mountain Off Road Adventure Area at Evarts, Kentucky. This loan is secured by county owned property. The HCORBA is responsible for debt payments to the Harlan Revitalization Association. As of June 30, 2015, the ending principal balance of the loan is \$154,989.

Note 11. Conduit Debt

A. The Laurels Addition Project

On October 26, 2000, Harlan County, Kentucky adopted an ordinance authorizing the execution of an Indenture of Trust (Indenture) between the Harlan County Fiscal Court (County) and The Bank of Harlan, Harlan, Kentucky, ("Trustee") under which bonds were authorized to be issued. Health Care Facility Revenue Bonds, Series 2000 were issued in the principal amount of \$1,530,000. The bonds are a limited obligation of the Harlan County Fiscal Court payable solely from annual rental payments received from Laurels, Inc. The proceeds of the issue were applied to the cost of constructing a 32 bed personal care facility immediately adjacent to the existing Laurels Nursing Home. The ordinance also authorizes the execution of a lease agreement by and among the county, as Lessor, and the Laurels, Inc., as Lessee (the "Company" or "Lessee"). Under the lease, Laurels, Inc. will lease the project from the county for the term of the bonds, at annual rentals sufficient to pay the principal and interest requirements on the bonds as the same become due. The county pledged to provide a standby guarantee on the debt service for an initial term ending June 30, 2001. The bonds and related interest do not represent or constitute an indebtedness of the Harlan County Fiscal Court. As of June 30, 2015, the outstanding principal balance due was \$1,140,000.

B. Black Mountain Utility District - Assignment of Deposit Account

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

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 12. Flexible Spending Arrangement

The Harlan County Fiscal Court has established a flexible spending arrangement to provide employees an additional health benefit. The arrangement provides for employee elected pre-tax withholdings to be maintained by the treasurer, and used to reimburse medical related expenses. The county does not contribute to the employees' accounts. Employees are required to provide the treasurer documentation of expenses prior to receiving reimbursement. As of June 30, 2015, the county maintained \$0 for employees.

Note 13. Employee Retirement System

A. Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous positions in the county. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

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

The county's contribution for FY 2013 was \$755,215, FY 2014 was \$680,734, and FY 2015 was \$614,902.

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

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

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

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 13. Employee Retirement System (Continued)

A. Plan Description (Continued)

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

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

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

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Harlan County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	\$ 6,267,000	\$ 5,539,000
Totals	<u>\$ 6,267,000</u>	<u>\$ 5,539,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 14. Deferred Compensation

On March 1, 2003, the Harlan County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 14. Deferred Compensation (Continued)

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 15. Insurance

For the fiscal year ended June 30, 2015, Harlan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 16. Prior Period Adjustments

The beginning cash balance for the general fund was increased due to combining financial activity from the Local Emergency Planning Committee in the amount of \$3,432 and a miscellaneous adjustment in cash of \$364 resulting in a total increase in the beginning general fund cash balance of \$3,796.

The beginning cash balance for the sinking fund was increased by a total of \$20 due to the closing of the 2004 series fund of \$3 and the KADD fund of \$17.

The beginning cash balance for the jail commissary fund was decreased \$5,350 due to errors in outstanding checks from prior year.

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,964,000	\$ 3,964,000	\$ 4,279,287	\$ 315,287
In Lieu Tax Payments	30	30		(30)
Excess Fees	64	64	41,768	41,704
Licenses and Permits	204,000	204,000	194,257	(9,743)
Intergovernmental	1,231,500	1,231,500	1,667,185	435,685
Charges for Services	1,417,000	1,417,000	1,232,165	(184,835)
Miscellaneous	65,000	65,000	653,878	588,878
Interest	8,000	8,000	10,523	2,523
Total Receipts	<u>6,889,594</u>	<u>6,889,594</u>	<u>8,079,063</u>	<u>1,189,469</u>
DISBURSEMENTS				
General Government	2,411,950	2,528,450	2,321,298	207,152
Protection to Persons and Property	133,000	234,204	169,967	64,237
General Health and Sanitation	1,816,000	1,687,164	1,458,644	228,520
Social Services	538,000	364,800	30,995	333,805
Recreation and Culture		99,000	84,258	14,742
Airports	200,000	193,800	157,236	36,564
Debt Service	38,000	37,300	35,884	1,417
Capital Projects		2,000	2,000	
Administration	1,705,180	1,695,412	1,540,210	155,202
Total Disbursements	<u>6,842,130</u>	<u>6,842,130</u>	<u>5,800,492</u>	<u>1,041,638</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>47,464</u>	<u>47,464</u>	<u>2,278,571</u>	<u>2,231,107</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			4	4
Transfers To Other Funds	(793,000)	(793,000)	(448,404)	344,596
Total Other Adjustments to Cash (Uses)	<u>(793,000)</u>	<u>(793,000)</u>	<u>(448,400)</u>	<u>344,600</u>
Net Change in Fund Balance	(745,536)	(745,536)	1,830,171	2,575,707
Fund Balance Beginning (Restated)	745,536	745,536	3,493,446	2,747,910
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,323,617</u>	<u>\$ 5,323,617</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 2,000	\$ 2,000	\$ 1,734	\$ (266)
Intergovernmental	2,024,000	2,024,000	3,042,767	1,018,767
Miscellaneous			20,451	20,451
Interest	1,000	1,000	4,082	3,082
Total Receipts	<u>2,027,000</u>	<u>2,027,000</u>	<u>3,069,034</u>	<u>1,042,034</u>
DISBURSEMENTS				
Protection to Persons and Property		98,000	91,535	6,465
Roads	2,140,500	2,312,500	1,828,153	484,347
Administration	650,500	480,500	369,909	110,591
Total Disbursements	<u>2,791,000</u>	<u>2,891,000</u>	<u>2,289,597</u>	<u>601,403</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(764,000)</u>	<u>(864,000)</u>	<u>779,437</u>	<u>1,643,437</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	375,000	375,000	371,708	(3,292)
Total Other Adjustments to Cash (Uses)	<u>375,000</u>	<u>375,000</u>	<u>371,708</u>	<u>(3,292)</u>
Net Change in Fund Balance	(389,000)	(489,000)	1,151,145	1,640,145
Fund Balance Beginning	<u>389,000</u>	<u>489,000</u>	<u>2,874,464</u>	<u>2,385,464</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,025,609</u>	<u>\$ 4,025,609</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,263,000	\$ 1,285,200	\$ 1,938,224	\$ 653,024
Charges for Services	30,000	30,000	30,181	181
Miscellaneous	51,600	139,100	157,561	18,461
Total Receipts	<u>1,344,600</u>	<u>1,454,300</u>	<u>2,125,966</u>	<u>671,666</u>
DISBURSEMENTS				
Protection to Persons and Property	1,791,500	2,018,500	1,929,396	89,104
Administration	751,300	634,000	600,243	33,757
Total Disbursements	<u>2,542,800</u>	<u>2,652,500</u>	<u>2,529,639</u>	<u>122,861</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,198,200)</u>	<u>(1,198,200)</u>	<u>(403,673)</u>	<u>794,527</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>1,198,200</u>	<u>1,198,200</u>	448,404	(749,796)
Total Other Adjustments to Cash (Uses)	<u>1,198,200</u>	<u>1,198,200</u>	<u>448,404</u>	<u>(749,796)</u>
Net Change in Fund Balance			44,731	44,731
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 44,731</u>	<u>\$ 44,731</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
	RECEIPTS			
Intergovernmental	\$ 1,450,000	\$ 1,450,000	\$ 1,460,698	\$ 10,698
Miscellaneous			20,908	20,908
Interest	1,200	1,200	2,010	810
Total Receipts	<u>1,451,200</u>	<u>1,451,200</u>	<u>1,483,616</u>	<u>32,416</u>
DISBURSEMENTS				
General Government	78,500	78,900	65,643	13,257
Protection to Persons and Property	75,000	75,000	60,963	14,037
General Health and Sanitation	490,600	582,160	547,379	34,781
Recreation and Culture	265,000	320,200	290,153	30,047
Administration	335,200	188,040	133,938	54,102
Total Disbursements	<u>1,244,300</u>	<u>1,244,300</u>	<u>1,098,076</u>	<u>146,224</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>206,900</u>	<u>206,900</u>	<u>385,540</u>	<u>178,640</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(1,580,200)</u>	<u>(1,580,200)</u>	<u>(1,071,708)</u>	<u>508,492</u>
Total Other Adjustments to Cash (Uses)	<u>(1,580,200)</u>	<u>(1,580,200)</u>	<u>(1,071,708)</u>	<u>508,492</u>
Net Change in Fund Balance	(1,373,300)	(1,373,300)	(686,168)	687,132
Fund Balance Beginning	<u>1,373,300</u>	<u>1,373,300</u>	<u>2,498,322</u>	<u>1,125,022</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,812,154</u>	<u>\$ 1,812,154</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	FEDERAL GRANT FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 248,750	\$ (251,250)
Interest	100	100	12	(88)
Total Receipts	<u>500,100</u>	<u>500,100</u>	<u>248,762</u>	<u>(251,338)</u>
DISBURSEMENTS				
General Health and Sanitation	615,100	615,100	248,750	366,350
Total Disbursements	<u>615,100</u>	<u>615,100</u>	<u>248,750</u>	<u>366,350</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(115,000)</u>	<u>(115,000)</u>	12	<u>115,012</u>
Net Change in Fund Balance	(115,000)	(115,000)	12	115,012
Fund Balance - Beginning	<u>115,000</u>	<u>115,000</u>	<u>116,066</u>	<u>1,066</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 116,078</u>	<u>\$ 116,078</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	SINKING FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Miscellaneous	\$		\$ 33,000	\$ 33,000
Interest		2,000	1,307	(693)
Total Receipts		<u>2,000</u>	<u>34,307</u>	<u>32,307</u>
DISBURSEMENTS				
Debt Service		857,500	798,136	69,364
Administration		10,000		
Total Disbursements		<u>867,500</u>	<u>798,136</u>	<u>69,364</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(865,500)</u>	<u>(763,829)</u>	<u>101,671</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		800,000	700,000	(100,000)
Transfers To Other Funds			(4)	(4)
Total Other Adjustments to Cash (Uses)		<u>800,000</u>	<u>699,996</u>	<u>(100,004)</u>
Net Change in Fund Balance		(65,500)	(63,833)	1,667
Fund Balance Beginning (Restated)		<u>65,500</u>	<u>916,388</u>	<u>850,888</u>
Fund Balance - Ending	\$	<u>0</u>	\$ <u>852,555</u>	\$ <u>852,555</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,900,000	\$ 2,900,000	\$ 3,067,013	\$ 167,013
Total Receipts	2,900,000	2,900,000	3,067,013	167,013
DISBURSEMENTS				
General Government	25,000	51,000	25,276	25,724
Protection to Persons and Property	150,000	150,000	68,570	81,430
General Health and Sanitation	1,125,000	1,300,000	1,215,058	84,942
Social Services	550,000	445,000	166,423	278,577
Recreation and Culture	50,000	100,000	82,495	17,505
Roads	150,000	4,000		4,000
Debt Service	800,000	800,000	239,065	560,935
Capital Projects	150,000	150,000	66,006	83,994
Total Disbursements	3,000,000	3,000,000	1,862,893	1,137,107
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(100,000)	(100,000)	1,204,120	1,304,120
Net Change in Fund Balance	(100,000)	(100,000)	1,204,120	1,304,120
Fund Balance Beginning	100,000	100,000	2,226,167	2,126,167
Fund Balance - Ending	\$ 0	\$ 0	\$ 3,430,287	\$ 3,430,287

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	EMERGENCY 911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 160,000	\$ 160,000	\$ 136,974	\$ (23,026)
Intergovernmental	150,000	150,000	151,489	1,489
Miscellaneous			13,305	13,305
Interest	150	150	154	4
Total Receipts	<u>310,150</u>	<u>310,150</u>	<u>301,922</u>	<u>(8,228)</u>
DISBURSEMENTS				
Protection to Persons and Property	355,000	456,800	425,678	31,122
Administration	105,500	3,700	1,035	2,665
Total Disbursements	<u>460,500</u>	<u>460,500</u>	<u>426,713</u>	<u>33,787</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(150,350)</u>	<u>(150,350)</u>	<u>(124,791)</u>	<u>25,559</u>
Net Change in Fund Balance	(150,350)	(150,350)	(124,791)	25,559
Fund Balance Beginning	<u>150,350</u>	<u>150,350</u>	<u>719,209</u>	<u>568,859</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 594,418</u>	<u>\$ 594,418</u>

HARLAN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

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.

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**HARLAN COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2015

HARLAN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 2,057,234	\$	\$	\$ 2,057,234
Buildings	20,972,433			20,972,433
Vehicles and Equipment	3,043,417	251,542	23,095	3,271,864
Other Equipment	998,620	84,648		1,083,268
Infrastructure	47,868,227	533,966		48,402,193
Jail Commissary Vehicles and Machinery	50,616			50,616
 Total Capital Assets	 \$ 74,990,547	 \$ 870,156	 \$ 23,095	 \$ 75,837,608

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

June 30, 2015

Note 1. Capital Assets

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

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

Note 2. Beginning Balance Restatement

The beginning balance was adjusted to include jail commissary vehicles and machinery. The beginning balance was increased by \$50,616.

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Harlan County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Harlan County Fiscal Court's financial statement and have issued our report thereon dated May 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Harlan County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Harlan County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Harlan County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-002 and 2015-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2015-004 to be a significant deficiency.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-001, 2015-002, and 2015-003.

County Judge/Executive's And Jailer's Responses to Findings

The Harlan County Judge/Executive's and Jailer's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Harlan County Judge/Executive's and Jailer's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 9, 2017

**HARLAN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

HARLAN COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Jailer Did Not Maintain Supporting Documentation For Sales Tax Payments, Did Not Submit One Sales Tax Report Timely, And Did Not Resolve Unpaid Sales Taxes For Fiscal Year 2014

The jailer did not maintain supporting documentation for sales tax payments for July, August, and September 2014. The jailer did not submit a timely payment for August 2014 sales tax, which was due by September 15, 2014, until October 22, 2014. Also, a follow up of the prior year audit findings determined that \$3,544 owed to the Kentucky State Treasurer for five months of sales from the jail commissary for fiscal year 2014 had not been resolved.

The jailer did not implement procedures to ensure supporting documentation for commissary expenses was retained and all sales tax returns were paid timely. When expenditures are not properly supported or explained, the risk of error in financial reporting significantly increases. Failure to prepare and submit sales tax reports timely could result in finance charges and late fees.

KRS 139.540 and KRS 139.550 require sales tax to be reported and paid to the Kentucky Department of Revenue monthly on or before the twentieth day of the next month. Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements.

We recommend the jailer maintain all original invoices, including any supporting documentation for sales tax payments, and submit sales tax reports in a timely manner to prevent incurring any penalties and interest on late payments. We also recommend the jailer and the county treasurer consult with the Kentucky Department of Revenue to ensure delinquent sales tax payments are resolved for fiscal year 2014.

County Judge/Executive's Response: The jailer and treasurer have contacted the Department of Revenue and ensured nothing is past due.

County Jailer's Response: Since I entered office in January 2015 all records have been kept and all past due payments have been made. There are no overdue payments owed. I will continue to keep and maintain records and make timely payments as I have done up to this point in time.

2015-002 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections

The Harlan County Fiscal Court has failed to implement controls to ensure compliance with requirements of the Solid Waste Franchise Renewal Agreement (Agreement). The following controls were not in place for fiscal year 2015:

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

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 list of delinquent residential customers to the company with the solid waste franchise.

**HARLAN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2015-002 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections (Continued)

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 to be written to provide all parties with the terms of the agreements. These written agreements should include the supporting documentation to be provided to the fiscal court by third parties for fees collected and delinquent. The Agreement requires the fiscal court to provide to the company with the solid waste franchise, each quarter, a list of residential customers with delinquent accounts that are subject to having pickup services terminated.

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

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

2015-003 The Harlan County Fiscal Court Insured Assets For Other Legally Separate Entities

The assets of the Tucker-Guthrie Airport, Sleepy Hollow Golf Course, and the Harlan County Outdoor Recreation Board Authority (HCORBA) are included on the fiscal court’s insurance policy. These assets are not legally owned by the fiscal court. The fiscal court includes the assets of these entities on the county’s insurance policy because these entities lack the financial ability to maintain insurance on the assets.

As a result of adding these assets, the fiscal court may have to pay higher premiums than necessary. The Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual* requires the fiscal court to “determine the accuracy of insurance coverage” for capital assets.

Also, effective internal controls should ensure taxpayer funds are used to only insure fiscal court assets. According to the fiscal court’s insurance provider, the fiscal court cannot legally insure items it does not own.

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

HARLAN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2015-003 The Harlan County Fiscal Court Insured Assets For Other Legally Separate Entities (Continued)

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

2015-004 The Harlan County Fiscal Court Did Not Have Adequate Internal Controls Over The Payroll Process

The following payroll deficiencies were noted:

- Five timesheets were not signed by the supervisor.
- The gross salaries for two employees did not agree to the salary schedule approved by the fiscal court.

The lack of adequate controls and oversight of employees' timesheets resulted in approval not being documented by the employee's supervisor to ensure that the reported time and rate of pay was correct. A lack of review of gross salaries compared to approved pay rate resulted in the gross salaries of the two employees not agreeing to the approved salary schedule.

A lack of oversight and review of pay rates approved by the fiscal court, resulted in timesheets not signed by the supervisor and employees being paid more than what was approved by the fiscal court.

Without oversight, supervisors may not be aware of the time charged by the employees. Lack of proper internal controls for payroll increases the risk that incorrect payroll information will be processed by the fiscal court and that errors will not be identified and corrected. An accurate, approved salary schedule is essential to ensure payroll is processed correctly.

Good internal controls dictate that all timesheets are signed by employees and have supervisory approval documented by signatures. Comparing gross salaries to the approved salary schedule is essential to ensure payroll is being processed accurately and employees are paid according to pay rates approved by the fiscal court.

In order to strengthen internal controls over payroll, we recommend the fiscal court implement procedures to ensure that timesheets are maintained and properly documented with supervisor's approval. Also, the fiscal court should update the approved salary schedule to reflect accurate salaries for all employees or review salaries in the payroll system to ensure pay rates agree to the salary schedule approved by the fiscal court.

County Judge/Executive's Response: The fiscal court has now implemented a new software program for payroll tracking and is requiring hourly and salary employees and supervisors to sign all timesheets. The two employees whose salaries did not agree to the salary schedule had salaries that were changed by the fiscal court in 2013, however the treasurer did not correctly reflect the change on the previous salary schedule.

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

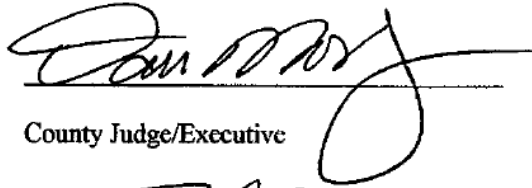
HARLAN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**

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

For The Fiscal Year Ended June 30, 2015

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



County Judge/Executive



County Treasurer

