

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

**For The Year Ended  
June 30, 2017**



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

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

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Harlan County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Harlan County Fiscal Court's financial statement as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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



To the People of Kentucky  
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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

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

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

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

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Harlan County Fiscal Court as of June 30, 2017, 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, 2017, 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 the 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 the Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2018, on our consideration of the Harlan County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Harlan County Fiscal Court's internal control over financial reporting and compliance.

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

- 2017-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections
- 2017-002 The Harlan County Fiscal Court Did Not Include A Capital Asset Addition On The County's Asset Listing Or Insurance Policy
- 2017-003 The Jailer Did Not Comply With Bidding Requirements Set Forth In KRS 424.260

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

May 3, 2018

**HARLAN COUNTY OFFICIALS****For The Year Ended June 30, 2017****Fiscal Court Members:**

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

**Other Elected Officials:**

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

**Appointed Personnel:**

Ryan Creech	County Treasurer
Colby Goss	Deputy Judge
Carolyn Smith	Administrative Assistant
Alice Hensley	Chief Financial Officer
Margie Shope	Account Payables
Stacey Madon	Payroll Clerk



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

**For The Year Ended June 30, 2017**

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

**For The Year Ended June 30, 2017**

	<b>Budgeted Funds</b>			
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>RECEIPTS</b>				
Taxes	\$ 4,006,559	\$	\$	\$
In Lieu Tax Payments	8,598			
Excess Fees	47,689			
Licenses and Permits	173,436			
Intergovernmental	1,799,102	2,411,128	2,632,662	1,210,632
Charges for Services	1,389,846		38,239	
Miscellaneous	332,800	1,546	86,683	
Interest	11,770	6,381		1,987
Total Receipts	<u>7,769,800</u>	<u>2,419,055</u>	<u>2,757,584</u>	<u>1,212,619</u>
<b>DISBURSEMENTS</b>				
General Government	2,388,198	2,743		128,648
Protection to Persons and Property	209,103		2,282,769	88,200
General Health and Sanitation	1,779,046			309,397
Social Services	37,922			
Recreation and Culture	212,409			377,640
Roads	16,000	1,700,242		
Airports	335,928			
Debt Service	180,484	64,275		
Capital Projects	313,994	35,059		
Administration	1,449,192	331,457	684,020	175,641
Total Disbursements	<u>6,922,276</u>	<u>2,133,776</u>	<u>2,966,789</u>	<u>1,079,526</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>847,524</u>	<u>285,279</u>	<u>(209,205)</u>	<u>133,093</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	181,746	321,635	340,815	
Transfers To Other Funds	<u>(333,912)</u>	<u>(181,746)</u>		<u>(1,062,538)</u>
Total Other Adjustments to Cash (Uses)	<u>(152,166)</u>	<u>139,889</u>	<u>340,815</u>	<u>(1,062,538)</u>
Net Change in Fund Balance	695,358	425,168	131,610	(929,445)
Fund Balance - Beginning (Restated)	<u>8,189,588</u>	<u>3,847,918</u>	<u>25,824</u>	<u>1,813,259</u>
Fund Balance - Ending	<u>\$ 8,884,946</u>	<u>\$ 4,273,086</u>	<u>\$ 157,434</u>	<u>\$ 883,814</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 6,216,874	\$ 1,797,004	\$ 211,055	\$ 153,347
Plus: Deposits In Transit				
Less: Outstanding Checks	(248,460)	(34,760)	(53,621)	(22,786)
Certificates of Deposit	<u>2,916,532</u>	<u>2,510,842</u>		<u>753,253</u>
Fund Balance - Ending	<u>\$ 8,884,946</u>	<u>\$ 4,273,086</u>	<u>\$ 157,434</u>	<u>\$ 883,814</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, 2017**  
**(Continued)**

<b>Budgeted Funds</b>				
<b>Federal Grants Fund</b>	<b>Sinking Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Airport Fund</b>	<b>Emergency 911 Fund</b>
\$	\$	\$	\$	\$ 117,631
250,000		1,490,286		191,700
	45,609		807,354	
12	2			97
<u>250,012</u>	<u>45,611</u>	<u>1,490,286</u>	<u>807,354</u>	<u>309,428</u>
250,000		33,409		333,056
		1,281,162		
		73,676		
		74,891		
			444,254	
	835,150			
		1,792		
		20,000		6,363
<u>250,000</u>	<u>835,150</u>	<u>1,484,930</u>	<u>444,254</u>	<u>339,419</u>
12	(789,539)	5,356	363,100	(29,991)
	734,000			
	<u>734,000</u>			
12	(55,539)	5,356	363,100	(29,991)
116,089	99,585	3,321,954	642,322	537,272
<u>\$ 116,101</u>	<u>\$ 44,046</u>	<u>\$ 3,327,310</u>	<u>\$ 1,005,422</u>	<u>\$ 507,281</u>
\$ 116,101	\$ 44,046	\$ 3,333,203	\$ 1,005,422	\$ 510,266
		(5,893)		(2,985)
<u>\$ 116,101</u>	<u>\$ 44,046</u>	<u>\$ 3,327,310</u>	<u>\$ 1,005,422</u>	<u>\$ 507,281</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, 2017**  
**(Continued)**

	<u>Unbudgeted Funds</u>		
	<b>Justice Center</b>		<b>Total Funds</b>
	<b>Public Properties</b>	<b>Jail</b>	
	<b>Corporation</b>	<b>Commissary</b>	
<b>Fund</b>	<b>Fund</b>		
<b>RECEIPTS</b>			
Taxes	\$	\$	\$ 4,124,190
In Lieu Tax Payments			8,598
Excess Fees			47,689
Licenses and Permits			173,436
Intergovernmental	663,354		10,648,864
Charges for Services			1,428,085
Miscellaneous		335,153	1,609,145
Interest	2		20,251
Total Receipts	<u>663,356</u>	<u>335,153</u>	<u>18,060,258</u>
<b>DISBURSEMENTS</b>			
General Government			2,519,589
Protection to Persons and Property			3,196,537
General Health and Sanitation			3,369,605
Social Services			111,598
Recreation and Culture		364,849	1,029,789
Roads			1,716,242
Airports			780,182
Debt Service	663,350		1,743,259
Capital Projects			350,845
Administration			2,666,673
Total Disbursements	<u>663,350</u>	<u>364,849</u>	<u>17,484,319</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>6</u>	<u>(29,696)</u>	<u>575,939</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds			1,578,196
Transfers To Other Funds			(1,578,196)
Total Other Adjustments to Cash (Uses)			<u>0</u>
Net Change in Fund Balance	6	(29,696)	575,939
Fund Balance - Beginning	<u>2,546</u>	<u>149,899</u>	<u>18,746,256</u>
Fund Balance - Ending	<u>\$ 2,552</u>	<u>\$ 120,203</u>	<u>\$ 19,322,195</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 2,552	\$ 141,835	\$ 13,531,705
Deposits In Transit		188	188
Less Outstanding Checks		(21,820)	(390,325)
Certificates of Deposit			6,180,627
Ending Fund Balance	<u>\$ 2,552</u>	<u>\$ 120,203</u>	<u>\$ 19,322,195</u>

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

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TO THE FINANCIAL STATEMENT**

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**HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2017**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of Harlan County includes all budgeted and unbudgeted funds under the control of the Harlan County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The Harlan County Industrial Development Authority Board, the Tucker Guthrie Airport, and the Sleepy Hollow Golf Course would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis they are no longer are required components of the reporting entity.

**B. Basis of Accounting**

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

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

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

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

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

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

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

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

**C. Basis of Presentation (Continued)**

**Budgeted Funds (Continued)**

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

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

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

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

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

Airport Fund - The purpose of this fund is to account for insurance proceeds and disbursements to repair the airport terminal. The primary source of receipts is an insurance settlement as a result of damage that occurred to the airport facilities.

Emergency 911 Fund - The purpose of this fund is to account for emergency 911 receipts and disbursements. The sole source of receipts for this fund is telephone tax.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Justice Center Public Properties Corporation Fund - The purpose of this fund is to account for debt service requirements of the justice center public properties corporation refunding revenue bonds. The Department for Local Government does not require the fiscal court to budget this fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being 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.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(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.

**E. Harlan County Elected Officials**

Kentucky law provides for election of the officials 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, 2017**  
**(Continued)**

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

**F. Deposits and Investments (Continued)**

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

**G. Long-term Obligations**

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

**H. Related Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing 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 fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 181,746	\$	\$ 181,746
Road Fund			321,635	321,635
Jail Fund	133,912		206,903	340,815
Sinking Fund	200,000		534,000	734,000
Total Transfers Out	<u>\$ 333,912</u>	<u>\$ 181,746</u>	<u>\$ 1,062,538</u>	<u>\$ 1,578,196</u>

Reason for transfers:

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

**Note 4. Agency Trust Funds**

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

The fiscal court has the following agency trust funds:

Louellen Escrow Fund - The fund is held by the Harlan County Fiscal Court for the Army Corps of Engineers for sewer projects located in Harlan County. The balance in the Louellen escrow fund as of June 30, 2017, was \$226,473.

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, 2017, was \$3,111.

Flood Control Fund - This fund is held by the Harlan County Fiscal Court for the Army Corps of Engineers for flood projects located in Harlan County. The balance in the flood control fund as of June 30, 2017, 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, 2017, was \$5,085.

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2017, was \$5,311.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

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

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

This agreement states any debt payments made on behalf of the IDA board by the fiscal court are considered a loan, and the IDA board will resume debt payments and will repay the sums paid by the fiscal court when funds become available. The IDA paid the bank loan off on October 22, 2014, leaving a principal balance of \$0 as of June 30, 2015. During fiscal year 2015, the fiscal court determined that an accounts receivable of \$460,002 was due from the IDA board for reimbursement of debt payments made by the fiscal court on behalf of the IDA board. On October 20, 2015, the IDA board paid \$303,712 on the accounts receivable leaving a balance due of \$156,290 as of June 30, 2017.

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

On January 11, 2010, the Harlan County Circuit Court ordered \$500,000 to be donated to the Harlan County Fiscal Court from two defendants in a criminal action case. These funds were ordered to be designated for the sole use of drug abuse prevention through youth activities and facilities. These funds are maintained in the general fund. During September 2016, funds were transferred into a certificate of deposit. The balance in the certificate of deposit as of June 30, 2017, was \$506,204.

**Note 7. Landfill Escrow Account**

This account was the result of a settlement reached between the Commonwealth of Kentucky and the 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. The Kentucky Division of Waste Management (DWM) released and relinquished all claims to the funds on January 23, 2017. The DWM directed that the principal amount of \$43,000 be released to the Harlan County Fiscal Court without reserve and the interest accrued on the account totaling \$240 be paid into the Energy and Environmental Cabinet's Solid Waste Disposal Site Restoration Fund to be used at the Cabinet's discretion, pursuant to KRS 224.650(4). On March 9, 2017, a check was written in the amount of \$43,000 to the Harlan County Fiscal Court and a check was written to the Kentucky State Treasurer totaling \$240 leaving a balance of \$0 in the account as of June 30, 2017.

**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.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 9. Lease Agreement**

On July 7, 2015, the county 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 60 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 2017, the county leased 15 vehicles with total lease payments of \$95,302. The lease payments required under the leasing agreement for the fiscal years ending June 30, 2018, and thereafter are as follows:

Fiscal Year Ended June 30	Amount
2018	\$ 117,874
2019	117,874
2020	117,874
2021	82,128
2022	23,732
Total Lease Payments	<u>\$ 459,482</u>

**Note 10. Long-term Debt**

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

On October 26, 2009, the Harlan County Fiscal Court entered into a financing agreement with Kentucky Association of Counties (KACo) leasing trust program in the amount of \$5,000,000 for the construction of sewer and water lines. Prior to receiving the lease proceeds, the county paid for the sewer and waterline construction expenses with monies from the county's general checking account. When the lease proceeds were received they were deposited into a leasing bank account at KACo and were used to make lease principal and interest payments on the lease through June 30, 2013, and subsequently through October 2013. The remaining balance of \$3,947,131 in the KACo leasing account was transferred to reimburse the general checking account on October 3, 2013. The principal and interest payments are due on the 20th day of each month. The obligation is scheduled to be paid off in June 2030. The principal balance as of June 30, 2017, is \$3,052,701. Debt service requirements for the fiscal years ending June 30, 2018, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 179,851	\$ 127,984
2019	187,691	120,144
2020	195,705	112,131
2021	204,223	103,612
2022	213,060	94,775
2023-2027	1,211,858	327,318
2028-2030	860,313	63,193
Totals	<u>\$ 3,052,701</u>	<u>\$ 949,157</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 10. Long-term Debt (Continued)**

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

On September 25, 2007, the Harlan County Fiscal Court entered into a Kentucky Area Development District (KADD) financing agreement, Series 2007, in the amount of \$2,860,000 for the construction of sewer lines. Principal payments are due annually on September 20 and interest payments are due semiannually on March 20 and September 20. The obligation is scheduled to be paid off in September 2037. The principal balance as of June 30, 2017, is \$2,375,000. Debt service requirements for the fiscal years ending June 30, 2018, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 65,000	\$ 118,325
2019	70,000	115,200
2020	75,000	111,756
2021	75,000	108,194
2022	80,000	104,473
2023-2027	465,000	456,861
2028-2032	595,000	324,243
2033-2037	770,000	149,350
2038	180,000	4,635
Totals	<u>\$ 2,375,000</u>	<u>\$ 1,493,037</u>

**C. Detention Center General Obligation Bond - 2013 Series**

On May 7, 2013, the county issued \$5,350,000 of general obligation bonds. These bonds were issued for the purpose of refinancing the general obligation bonds, Series 2004, for the acquisition, construction, and equipping of construction of the detention center facility. The bonds require two semiannual interest payments be made on March 1 and September 1 of each year beginning September 1, 2013. Principal payments are due September 1 of each year until September 1, 2034. As of June 30, 2017, the principal amount outstanding was \$4,785,000. Debt service requirements for the fiscal years ending June 30, 2018, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 215,000	\$ 127,612
2019	215,000	123,850
2020	220,000	119,500
2021	225,000	115,050
2022	230,000	110,500
2023-2027	1,245,000	468,494
2028-2032	1,440,000	276,325
2033-2035	995,000	49,319
Totals	<u>\$ 4,785,000</u>	<u>\$ 1,390,650</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 10. Long-term Debt (Continued)**

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

On November 23, 2010, the Harlan County Fiscal Court issued revenue bonds for the purpose of advanced refunding of the First Mortgage Revenue Bonds, Series 2002, associated with the justice center project. The principal amount of the refunding bonds when issued was \$6,865,000 and interest varies from 2 percent to 3.5 percent. Interest payments are due each March 1 and each September 1 until March 2025. Principal payments are due with the March interest payment beginning in 2013. The principal balance at June 30, 2017, is \$4,610,000. Debt service requirements for the fiscal years ending June 30, 2018, and thereafter are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 510,000	\$ 152,000
2019	530,000	136,700
2020	550,000	120,800
2021	560,000	104,300
2022	585,000	86,100
2023-2025	1,875,000	132,650
Totals	<u>\$ 4,610,000</u>	<u>\$ 732,550</u>

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

Long-term debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Refunding Revenue Bonds	\$ 5,105,000	\$	\$ 495,000	\$ 4,610,000	\$ 510,000
General Obligation Bonds	4,995,000		210,000	4,785,000	215,000
Financing Obligations	5,665,092		237,392	5,427,700	244,851
Total Long-term Debt	<u>\$ 15,765,092</u>	<u>\$</u>	<u>\$ 942,392</u>	<u>\$ 14,822,700</u>	<u>\$ 969,851</u>

**Note 11. Short-Term Debt**

On March 3, 2016, the Harlan County Fiscal Court entered into a short-term loan with the United States Department of Agriculture. The loan indebtedness is to be evidenced by County of Harlan General Obligation Notes (Flood Levee Recertification Project), Series 2016, in the principal amount of \$19,450 for the purpose of financing the cost of the recertification of the existing flood levee of the county. The principal and interest, at a rate of 3.25 percent, will be due on maturity. The principal amount of \$19,450 and interest amount of \$306 was paid on December 21, 2016, leaving a balance of \$0 as of June 30, 2017.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 12. 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 2017, the fiscal court expended \$2,813 for interest payments and \$10,999 for principal payments. As of June 30, 2017, the ending principal balance of the line of credit was \$0.

**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, 2017, the ending principal balance of the loan was \$142,812.

**Note 13. Conduit Debt**

**A. The Laurels Addition Project**

On October 26, 2000, the Harlan County Fiscal Court adopted an ordinance authorizing the execution of an indenture of trust (indenture) between the Harlan County Fiscal Court (county) and the Bank of Harlan, Harlan, Kentucky, (trustee) under which bonds were authorized to be issued. Health Care Facility Revenue Bonds, Series 2000, were issued in the principal amount of \$1,530,000. The bonds are a limited obligation of the Harlan County Fiscal Court payable solely from annual rental payments received from Laurels, Inc. The proceeds of the issue were applied to the cost of constructing a 32 bed personal care facility immediately adjacent to the existing Laurels Nursing Home. The ordinance also authorizes the execution of a lease agreement by and among the county, as lessor, and the Laurels, Inc., as lessee. Under the lease, Laurels, Inc. will lease the project from the county for the term of the bonds, at annual rentals sufficient to pay the principal and interest requirements on the bonds as the same become due. The county pledged to provide a standby guarantee on the debt service for an initial term ending June 30, 2001. The bonds and related interest do not represent or constitute an indebtedness of the Harlan County Fiscal Court. As of June 30, 2017, the outstanding principal balance due was \$1,055,000.

**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, Kentucky in the amount of \$150,000. This assignment of deposit was renewed on July 28, 2016, and was executed among the Harlan County Fiscal Court (grantor); the Black Mountain Utility District (borrower); and the Bank of Harlan (lender). For valuable consideration, the grantor assigns and grants to the lender 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 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

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 13. Conduit Debt (Continued)**

**B. Black Mountain Utility District - Assignment of Deposit Account (Continued)**

obligations secured by this agreement have been fulfilled; and (c) the grantor, in writing, has requested from the lender a release of this agreement. As of June 30, 2017, the balance in the assignment of deposit account was \$150,000.

**Note 14. 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, 2017, the county maintained \$0 for employees.

**Note 15. Employee Retirement System**

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

The county's contribution for FY 2015 was \$614,902, FY 2016 was \$604,827, and FY 2017 was \$677,144.

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 be allocated as follows: five percent will go to the member's account and one 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 five percent of their annual creditable compensation. Nonhazardous members also contribute 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 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 four 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 18.68 percent.



**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 15. Employee Retirement System (Continued)**

Health Insurance Coverage

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:

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

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

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at [kyret.ky.gov](http://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 16. Deferred Compensation**

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

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

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 16. Deferred Compensation (Continued)**

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

**Note 17. Insurance**

For the fiscal year ended June 30, 2017, the Harlan County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 18. Prior Period Adjustments**

General Fund:

Prior Year Ending Fund Balance	\$ 8,195,295
Immaterial Adjustment	26
Local Emergency Planning Committee	<u>(5,733)</u>
Prior Year Ending Fund Balance (Restated)	<u>\$ 8,189,588</u>

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

**For The Year Ended June 30, 2017**

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

**For The Year Ended June 30, 2017**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 3,596,170	\$ 3,898,170	\$ 4,006,559	\$ 108,389
In Lieu Tax Payments	30	30	8,598	8,568
Excess Fees	366	42,366	47,689	5,323
Licenses and Permits	167,000	167,000	173,436	6,436
Intergovernmental	1,534,850	2,055,747	1,799,102	(256,645)
Charges for Services	1,235,000	1,235,000	1,389,846	154,846
Miscellaneous	176,000	176,000	332,800	156,800
Interest	8,000	8,000	11,770	3,770
Total Receipts	<u>6,717,416</u>	<u>7,582,313</u>	<u>7,769,800</u>	<u>187,487</u>
<b>DISBURSEMENTS</b>				
General Government	2,576,600	2,568,968	2,388,198	180,770
Protection to Persons and Property	154,200	228,117	209,103	19,014
General Health and Sanitation	1,673,500	1,840,800	1,779,046	61,754
Social Services	538,000	40,000	37,922	2,078
Recreation and Culture		232,910	212,409	20,501
Roads		84,300	16,000	68,300
Airports	150,000	511,034	335,928	175,106
Debt Service	95,000	181,760	180,484	1,276
Capital Projects	5,000	321,000	313,994	7,006
Administration	1,525,116	1,535,924	1,449,192	86,732
Total Disbursements	<u>6,717,416</u>	<u>7,544,813</u>	<u>6,922,276</u>	<u>622,537</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>37,500</u>	<u>847,524</u>	<u>810,024</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	200,000	200,000	181,746	(18,254)
Transfers To Other Funds	(200,000)	(437,500)	(333,912)	103,588
Total Other Adjustments to Cash (Uses)		<u>(237,500)</u>	<u>(152,166)</u>	<u>85,334</u>
Net Change in Fund Balance		(200,000)	695,358	895,358
Fund Balance - Beginning (Restated)		<u>200,000</u>	<u>8,189,588</u>	<u>7,989,588</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,884,946</u>	<u>\$ 8,884,946</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
In Lieu Tax Payments	\$ 2,000	\$ 2,000	\$	\$ (2,000)
Intergovernmental	1,696,253	1,696,253	2,411,128	714,875
Miscellaneous			1,546	1,546
Interest	2,000	2,000	6,381	4,381
Total Receipts	<u>1,700,253</u>	<u>1,700,253</u>	<u>2,419,055</u>	<u>718,802</u>
<b>DISBURSEMENTS</b>				
General Government		3,000	2,743	257
Roads	2,143,050	2,149,450	1,700,242	449,208
Debt Service	76,000	76,000	64,275	11,725
Capital Projects		35,060	35,059	1
Administration	472,800	428,340	331,457	96,883
Total Disbursements	<u>2,691,850</u>	<u>2,691,850</u>	<u>2,133,776</u>	<u>558,074</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(991,597)</u>	<u>(991,597)</u>	<u>285,279</u>	<u>1,276,876</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	256,500	256,500	321,635	65,135
Transfers To Other Funds	(200,000)	(200,000)	(181,746)	18,254
Total Other Adjustments to Cash (Uses)	<u>56,500</u>	<u>56,500</u>	<u>139,889</u>	<u>83,389</u>
Net Change in Fund Balance	(935,097)	(935,097)	425,168	1,360,265
Fund Balance - Beginning	<u>935,097</u>	<u>935,097</u>	<u>3,847,918</u>	<u>2,912,821</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,273,086</u>	<u>\$ 4,273,086</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,154,000	\$ 2,154,000	\$ 2,632,662	\$ 478,662
Charges for Services	28,500	28,500	38,239	9,739
Miscellaneous	137,000	137,000	86,683	(50,317)
Total Receipts	<u>2,319,500</u>	<u>2,319,500</u>	<u>2,757,584</u>	<u>438,084</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,094,000	2,360,329	2,282,769	77,560
Administration	733,300	704,471	684,020	20,451
Total Disbursements	<u>2,827,300</u>	<u>3,064,800</u>	<u>2,966,789</u>	<u>98,011</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(507,800)</u>	<u>(745,300)</u>	<u>(209,205)</u>	<u>536,095</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	507,800	745,300	340,815	(404,485)
Total Other Adjustments to Cash (Uses)	<u>507,800</u>	<u>745,300</u>	<u>340,815</u>	<u>(404,485)</u>
Net Change in Fund Balance			131,610	131,610
Fund Balance - Beginning			<u>25,824</u>	<u>25,824</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 157,434</u>	<u>\$ 157,434</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 995,000	\$ 995,000	\$ 1,210,632	\$ 215,632
Interest	1,200	1,200	1,987	787
Total Receipts	<u>996,200</u>	<u>996,200</u>	<u>1,212,619</u>	<u>216,419</u>
<b>DISBURSEMENTS</b>				
General Government	154,000	138,400	128,648	9,752
Protection to Persons and Property	50,000	99,000	88,200	10,800
General Health and Sanitation	273,500	327,600	309,397	18,203
Recreation and Culture	387,000	413,000	377,640	35,360
Administration	233,500	185,000	175,641	9,359
Total Disbursements	<u>1,098,000</u>	<u>1,163,000</u>	<u>1,079,526</u>	<u>83,474</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(101,800)</u>	<u>(166,800)</u>	<u>133,093</u>	<u>299,893</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	154,000	154,000		(154,000)
Transfers To Other Funds	(764,300)	(1,064,300)	(1,062,538)	1,762
Total Other Adjustments to Cash (Uses)	<u>(610,300)</u>	<u>(910,300)</u>	<u>(1,062,538)</u>	<u>(152,238)</u>
Net Change in Fund Balance	(712,100)	(1,077,100)	(929,445)	147,655
Fund Balance - Beginning	<u>712,100</u>	<u>1,077,100</u>	<u>1,813,259</u>	<u>736,159</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 883,814</u>	<u>\$ 883,814</u>



**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>FEDERAL GRANTS FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 250,000	\$ 250,000	\$ 250,000	\$
Interest	15	15	12	(3)
Total Receipts	<u>250,015</u>	<u>250,015</u>	<u>250,012</u>	<u>(3)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	<u>366,015</u>	<u>366,015</u>	<u>250,000</u>	<u>116,015</u>
Total Disbursements	<u>366,015</u>	<u>366,015</u>	<u>250,000</u>	<u>116,015</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(116,000)</u>	<u>(116,000)</u>	<u>12</u>	<u>116,012</u>
Net Change in Fund Balance	(116,000)	(116,000)	12	116,012
Fund Balance - Beginning	<u>116,000</u>	<u>116,000</u>	<u>116,089</u>	<u>89</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 116,101</u>	<u>\$ 116,101</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>SINKING FUND</b>			
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Miscellaneous	\$	\$	\$ 45,609	\$ 45,609
Interest	1,000	1,000	2	(998)
Total Receipts	<u>1,000</u>	<u>1,000</u>	<u>45,611</u>	<u>44,611</u>
<b>DISBURSEMENTS</b>				
Debt Service	842,000	1,142,000	835,150	306,850
Total Disbursements	<u>842,000</u>	<u>1,142,000</u>	<u>835,150</u>	<u>306,850</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(841,000)</u>	<u>(1,141,000)</u>	<u>(789,539)</u>	<u>351,461</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	200,000	500,000	734,000	234,000
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)	<u>200,000</u>	<u>500,000</u>	<u>734,000</u>	<u>234,000</u>
Net Change in Fund Balance	(641,000)	(641,000)	(55,539)	585,461
Fund Balance - Beginning	<u>641,000</u>	<u>641,000</u>	<u>99,585</u>	<u>(541,415)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 44,046</u>	<u>\$ 44,046</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,000,000	\$ 2,000,000	\$ 1,490,286	\$ (509,714)
Total Receipts	2,000,000	2,000,000	1,490,286	(509,714)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	51,000	51,000	33,409	17,591
General Health and Sanitation	720,000	1,446,500	1,281,162	165,338
Social Services	142,000	112,000	73,676	38,324
Recreation and Culture	205,000	235,000	74,891	160,109
Debt Service	750,000	34,000		34,000
Capital Projects	450,000	419,500	1,792	417,708
Administration		20,000	20,000	
Total Disbursements	2,318,000	2,318,000	1,484,930	833,070
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(318,000)	(318,000)	5,356	323,356
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds				
Transfers To Other Funds	(154,000)	(154,000)		154,000
Total Other Adjustments to Cash (Uses)	(154,000)	(154,000)		154,000
Net Change in Fund Balance	(472,000)	(472,000)	5,356	477,356
Fund Balance - Beginning	472,000	472,000	3,321,954	2,849,954
Fund Balance - Ending	\$ 0	\$ 0	\$ 3,327,310	\$ 3,327,310

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>AIRPORT FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Miscellaneous	\$ 700,000	\$ 700,000	\$ 807,354	\$ 107,354
Total Receipts	700,000	700,000	807,354	107,354
<b>DISBURSEMENTS</b>				
Airports	1,200,000	1,200,000	444,254	755,746
Total Disbursements	1,200,000	1,200,000	444,254	755,746
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(500,000)	(500,000)	363,100	863,100
Net Change in Fund Balance	(500,000)	(500,000)	363,100	863,100
Fund Balance - Beginning	500,000	500,000	642,322	142,322
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,005,422	\$ 1,005,422

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

	<b>EMERGENCY 911 FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 120,000	\$ 120,000	\$ 117,631	\$ (2,369)
Intergovernmental	150,000	150,000	191,700	41,700
Interest	150	150	97	(53)
Total Receipts	<u>270,150</u>	<u>270,150</u>	<u>309,428</u>	<u>39,278</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	372,000	392,000	333,056	58,944
Administration	46,670	26,670	6,363	20,307
Total Disbursements	<u>418,670</u>	<u>418,670</u>	<u>339,419</u>	<u>79,251</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(148,520)</u>	<u>(148,520)</u>	<u>(29,991)</u>	<u>118,529</u>
Net Change in Fund Balance	(148,520)	(148,520)	(29,991)	118,529
Fund Balance - Beginning	<u>148,520</u>	<u>148,520</u>	<u>537,272</u>	<u>388,752</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 507,281</u>	<u>\$ 507,281</u>

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

**June 30, 2017**

**Note 1. Budgetary Information**

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

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

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

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

**For The Year Ended June 30, 2017**

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

**For The Year Ended June 30, 2017**

The fiscal court reports the following Schedule of Capital Assets:

	Balance (*Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 2,057,234	\$ 5,000	\$	\$ 2,062,234
Buildings and Building Improvements*	20,992,423	608,777		21,601,200
Vehicles and Equipment	3,250,075	124,403	226,013	3,148,465
Other Equipment	1,099,113	6,517	21,151	1,084,479
Infrastructure	48,866,318	672,115	7,202	49,531,231
Jail Commissary Vehicles and Machinery	50,616	118,750		169,366
 Total Capital Assets	 <u>\$ 76,315,779</u>	 <u>\$ 1,535,562</u>	 <u>\$ 254,366</u>	 <u>\$ 77,596,975</u>

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

**June 30, 2017**

**Note 1. Capital Assets**

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

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

**Note 2. Restatement of Capital Assets Beginning Balance**

The beginning balance for buildings and building improvements was increased by \$19,990 for a boat dock trailer that was omitted in the prior year.

**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, 2017, 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 3, 2018.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 to be material weaknesses.



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

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Harlan County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, and 2017-003.

### **Views of Responsible Officials and Planned Corrective Action**

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

### **Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

May 3, 2018

**HARLAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2017**

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**HARLAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2017**

FINANCIAL STATEMENT FINDINGS:

2017-001 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 2016-001. 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 2017:

- 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.
- The fiscal court did not receive monthly collection fees totaling \$5,119 from the City of Benham for September 2016, November 2016, December 2016, January 2017, and April 2017.

As of June 30, 2017, the fiscal court is aware of approximately \$585,988 in accounts receivables for collection of residential and commercial solid waste throughout Harlan County. These account receivables also include 1,232 accounts that are past due. 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. In addition, these written agreements should 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 a list quarterly to the company with the solid waste franchise documenting residential customers with delinquent accounts that are subject to having pickup services terminated.

We recommend the fiscal court enter into written agreements with the utility districts detailing recordkeeping requirements for waste collections, monthly financial reports, and delinquent listings. When procedures are implemented to create a list of delinquent customers, the fiscal court should provide the listing to the county attorney for potential collection efforts and the 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: The fiscal court worked with Auditor of Public Account staff, along with software company personnel to ensure we are now receiving all reports APA and the fiscal court need to effectively monitor uncollected revenues. From January 2015 through June 30, 2017, over \$3.1 million has been paid to the fiscal court for garbage service by the utility districts. In that same period, \$585,988 became delinquent. This places the county at over 84% collection rate. While this is not a perfect collection rate, we believe it to be in line with other collection services. However, prior to the fiscal court handling garbage service collections in this manner, the collection rate was at near 50% when handled by the garbage service provider. The comment mentions 1,200 plus delinquent accounts. We have worked diligently to contact many of these customers and have agreements in place with over 100 of these customers to make their bills current over time*

**HARLAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2017  
(Continued)**

FINANCIAL STATEMENT FINDINGS: Continued)

2017-001 The Harlan County Fiscal Court Does Not Have Sufficient Internal Controls Over Waste Removal Collections (Continued)

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

*and are actively pursuing efforts with other delinquent customers to make them current. 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.*

2017-002 The Harlan County Fiscal Court Did Not Add A Capital Asset Addition To The County's Asset Listing Or Insurance Policy

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The fiscal court did not add a newly acquired capital asset purchased during fiscal year 2017 to the county's asset listing or insurance policy. A body scanner purchased through the jail's commissary account valued at \$118,750 was susceptible to uninsured loss. This control deficiency resulted from a lack of adequate communication between the jail and the county judge/executive's office. The asset was not insured for a period of time and the county was at an avoidable risk.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per KRS 68.210, the Department for Local Government's *County Budget Preparation and State Local Financial Officer Policy Manual* requires the fiscal court to "[d]etermine the accuracy of insurance coverage" for capital assets. Good internal controls require the fiscal court to submit a policy change form timely to the county's insurance provider to ensure that newly acquired assets are included on the county's insurance policy.

We recommend the fiscal court submit all required forms to the county's insurance provider when assets are purchased. We also recommend the fiscal court review the county's insurance policy annually, at a minimum, to ensure it is accurate.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: While it is the fiscal court's responsibility to maintain an accurate asset schedule and listing of insured assets, the fiscal court did not receive any documentation related to this purchase. As stated, this scanner was purchased through the Jail's Commissary Account. This means the fiscal court did not pay for this purchase, approve this purchase, nor receive documentation of this purchase, nor does the fiscal court have any authority over the jail commissary funds. Without proper documentation such as cost, purchase date, etc., the County Treasurer cannot add this item to our asset list, nor can my office add this item to the county's insurance policy. We will continue to rely heavily on the jailer and his staff to make the court aware of any items purchased that should be included on the asset listing or insurance policy.*

2017-003 The Jailer Did Not Comply With Bidding Requirements Set Forth In KRS 424.260

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The jailer purchased a body scanner from the jail commissary fund for \$118,750 without obtaining bids. Also, the jailer paid a total of \$28,875 to a single vendor for electronic cigarettes purchased for resale through the jail commissary fund without obtaining bids. The jailer failed to advertise for bids on the purchase of the body scanner. The jailer stated he did obtain quotes from two different companies, but could not provide documentation of these quotes. Jail commissary purchases of electronic cigarettes consisted of nine separate purchases from the same vendor, all of which were less than \$20,000 each. The jailer was unaware of the

**HARLAN COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: Continued)

2017-003 The Jailer Did Not Comply With Bidding Requirements Set Forth In KRS 424.260 (Continued)

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requirement to obtain bids for these items. The jailer cannot ensure that he has purchased these items at the best price available without obtaining bids.

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

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

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive’s Response: The County Judge/Executive referred to the Jailer for response.*

*Jailer’s Response: At the time there was two scanner companies to purchase from, [vendor name redacted] quoted a price of \$118,750 and [vendor name redacted] quoted a price of \$169,900. I contacted several different offices and all told me I didn’t have to bid them because there were only two companies and I was getting the lesser of the two.*

*The nine purchases were over a period of a year. To bid, I was under the impression it had to be one (1) purchase over \$20,000.*

Auditor’s Reply: The jailer should comply with KRS 424.260 by advertising for bids when required.

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

**HARLAN COUNTY FISCAL COURT**

**For The Year Ended June 30, 2017**

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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, 2017

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



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County Judge/Executive



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County Treasurer