

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

**For The Fiscal Year Ended
June 30, 2013**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARLAN COUNTY FISCAL COURT

June 30, 2013

The Auditor of Public Accounts has completed the audit of the Harlan County Fiscal Court for fiscal year ended June 30, 2013.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents - Regulatory Basis of Harlan County, Kentucky. In accordance with OMB Circular A-133, we have issued an unmodified opinion on the compliance requirements that are applicable to Harlan County's major federal programs: Airport Improvement Program (CFDA #20.106) and Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (CFDA #14.228).

Financial Condition:

The Harlan County Fiscal Court had total receipts of \$18,899,137 and total disbursements of \$21,339,636. This resulted in cash balances and cash equivalents of \$12,465,772.

Report Comments:

- 2013-01 The Fiscal Court Should Follow Bid Requirements On All Disbursements Over \$20,000
- 2013-02 The Fiscal Court Should Consult With County Attorney And Energy And Environment Cabinet To Determine Proper Disposition Of Landfill Escrow Funds
- 2013-03 The Fiscal Court Should Improve Internal Controls Over Financial Reporting
- 2013-04 The Treasurer Should Ensure The Schedule Of Expenditures Of Federal Awards Is Complete And Accurate
- 2013-05 The County Lacks Adequate Segregation Of Duties Over Receipts, Cash Transfers And Bank Reconciliations
- 2013-06 Lack Of Effective Monitoring Has Resulted In Lost Revenues Of \$391,919
- 2013-07 The Fiscal Court Should Improve Internal Controls Over Payroll Procedures
- 2013-08 The Fiscal Court Should Improve Internal Controls Over Waste Removal Collections
- 2013-09 The Fiscal Court Should Attempt To Resolve Potential Industrial Development Authority Board Receivable
- 2013-10 The Fiscal Court Should Review Insurance Policy
- 2013-11 The Fiscal Court Should Consult With County Attorney Regarding Leased Flood Plain Properties
- 2013-12 The Jail Commissary Lacks Adequate Segregation of Duties Over Disbursements And Bank Reconciliations

Deposits:

The fiscal court's deposits as of June 30, 2013, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$52,054

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
HARLAN COUNTY OFFICIALS.....	5
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS	9
NOTES TO FINANCIAL STATEMENT	15
BUDGETARY COMPARISON SCHEDULES	31
NOTES TO SUPPLEMENTARY INFORMATION.....	39
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	43
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	44
SCHEDULE OF CAPITAL ASSETS	47
NOTES TO OTHER INFORMATION.....	48
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	51
REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 ..	55
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	61
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM	



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Dan Mosley, Harlan County Judge/Executive
Honorable Joseph A. Grieshop, Former 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 Cash Balances and Cash Equivalents - Regulatory Basis of Harlan County, Kentucky, for the year ended June 30, 2013, and the related notes to the financial statement.

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. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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



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

As described in more fully in Note 1, the financial statement is prepared by Harlan County, Kentucky 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 Harlan County, Kentucky as of June 30, 2013, 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 cash balances and cash equivalents of Harlan County, Kentucky as of June 30, 2013, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matters

As discussed in Note 16 and displayed on the Statement of Receipts, Disbursements, And Changes In Cash Balances And Cash Equivalents – Regulatory Basis, the Harlan County Fiscal Court had a negative ending General Fund Cash Balance of \$1,334,479. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the financial statement, in fiscal year 2013, the Harlan County Fiscal Court adopted new accounting guidance on a regulatory basis. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Harlan County, Kentucky. 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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement.

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Other Matters (Continued)

The budgetary comparison schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statement. The capital asset schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 22, 2014 on our consideration of Harlan County, Kentucky'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 and should be considered in assessing the results of our audit.

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

- 2013-01 The Fiscal Court Should Follow Bid Requirements On All Disbursements Over \$20,000
- 2013-02 The Fiscal Court Should Consult With County Attorney And Energy And Environment Cabinet To Determine Proper Disposition Of Landfill Escrow Funds
- 2013-03 The Fiscal Court Should Improve Internal Controls Over Financial Reporting
- 2013-04 The Treasurer Should Ensure The Schedule Of Expenditures Of Federal Awards Is Complete And Accurate
- 2013-05 The County Lacks Adequate Segregation Of Duties Over Receipts, Cash Transfers And Bank Reconciliations
- 2013-06 Lack Of Effective Monitoring Has Resulted In Lost Revenues Of \$391,919
- 2013-07 The Fiscal Court Should Improve Internal Controls Over Payroll Procedures
- 2013-08 The Fiscal Court Should Improve Internal Controls Over Waste Removal Collections
- 2013-09 The Fiscal Court Should Attempt To Resolve Potential Industrial Development Authority Board Receivable
- 2013-10 The Fiscal Court Should Review Insurance Policy
- 2013-11 The Fiscal Court Should Consult With County Attorney Regarding Leased Flood Plain Properties

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Members of the Harlan County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

2013-12 The Jail Commissary Lacks Adequate Segregation of Duties Over Disbursements And Bank Reconciliations

Respectfully submitted,



Adam H. Edelen

Auditor of Public Accounts

December 22, 2014

HARLAN COUNTY OFFICIALS

For The Year Ended June 30, 2013

Fiscal Court Members:

Joseph A. Grieshop	Former County Judge/Executive
Jonathan Pope	Magistrate
Bill Moore	Magistrate
David Kennedy	Magistrate
Jim Roddy	Magistrate
Delbert Stephens	Magistrate

Other Elected Officials:

Fred Busroe	County Attorney
Curtis Stallard	Jailer
Donna Hoskins	County Clerk
Paul Williams	Circuit Court Clerk
Marvin Lipfird	Sheriff
Felicia Wooten	Property Valuation Administrator
Philip Bianchi	Coroner

Appointed Personnel:

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

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

For The Year Ended June 30, 2013

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

For The Year Ended June 30, 2013

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 4,276,905	\$ 1,966	\$
Excess Fees	30,294		
Licenses and Permits	207,638		
Intergovernmental	1,918,131	1,888,734	985,372
Charges for Services	1,372,250		32,538
Miscellaneous	267,850	8,482	60,357
Interest	6,459	2,599	
Total Receipts	<u>8,079,527</u>	<u>1,901,781</u>	<u>1,078,267</u>
DISBURSEMENTS			
General Government	2,467,902		
Protection to Persons and Property	120,293		2,019,926
General Health and Sanitation	4,258,802		
Social Services	201,436		
Recreation and Culture			
Roads		1,799,268	
Airports	227,245		
Debt Service	66,909		
Capital Projects	26,535		
Administration	1,550,929	333,224	601,091
Total Disbursements	<u>8,920,051</u>	<u>2,132,492</u>	<u>2,621,017</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(840,524)</u>	<u>(230,711)</u>	<u>(1,542,750)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds			
Bond Discount			
Defeasance of 2004 Bond Issue			
Transfers From Other Funds		1,609,540	2,312,753
Transfers To Other Funds			
Total Other Adjustments to Cash (Uses)		<u>1,609,540</u>	<u>2,312,753</u>
Net Change in Cash Balances and Cash Equivalents	(840,524)	1,378,829	770,003
Cash Balances and Cash Equivalents - Beginning	(493,955)	1,809,398	(683,850)
Cash Balances and Cash Equivalents - Ending	<u>\$ (1,334,479)</u>	<u>\$ 3,188,227</u>	<u>\$ 86,153</u>

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

HARLAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS
For The Year Ended June 30, 2013
(Continued)

	Budgeted Funds			
	Local Government Economic Assistance Fund	Federal Grants Fund	Sinking Fund	Local Government Economic Development Fund
RECEIPTS				
Taxes	\$	\$	\$	\$
Excess Fees				
Licenses and Permits				
Intergovernmental	2,483,341	248,750		4,053,848
Charges for Services				
Miscellaneous				
Interest	1,394	87	1,470	
Total Receipts	<u>2,484,735</u>	<u>248,837</u>	<u>1,470</u>	<u>4,053,848</u>
DISBURSEMENTS				
General Government	57,832			56,756
Protection to Persons and Property	46,076	248,750		168,848
General Health and Sanitation	298,778			2,821,992
Social Services				1,106,155
Recreation and Culture	466,744			128,899
Roads				7,953
Airports				
Debt Service				
Capital Projects				154,869
Administration	213,736			
Total Disbursements	<u>1,083,166</u>	<u>248,750</u>	<u></u>	<u>4,445,472</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,401,569</u>	<u>87</u>	<u>1,470</u>	<u>(391,624)</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds				
Bond Discount				
Defeasance of 2004 Bond Issue				
Transfers From Other Funds			500,000	
Transfers To Other Funds	(4,422,293)		(187,040)	(372,682)
Total Other Adjustments to Cash (Uses)	<u>(4,422,293)</u>	<u></u>	<u>312,960</u>	<u>(372,682)</u>
Net Change in Cash Balances and Cash	(3,020,724)	87	314,430	(764,306)
Cash Balances and Cash Equivalents - Beginning	6,180,334	115,948	(40,900)	2,858,745
Cash Balances and Cash Equivalents - Ending	<u>\$ 3,159,610</u>	<u>\$ 116,035</u>	<u>\$ 273,530</u>	<u>\$ 2,094,439</u>

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

HARLAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS
For The Year Ended June 30, 2013
(Continued)

	<u>Budgeted Fund</u>	<u>Unbudgeted Funds</u>	
	<u>Emergency 911 Fund</u>	<u>Kentucky Association of Counties (KACO) Lease Trust Program - 2008 Series Fund</u>	<u>Kentucky Area Development District (KADD) Lease - 2007 Series Fund</u>
RECEIPTS			
Taxes	\$ 171,537	\$	
Excess Fees			
Licenses and Permits			
Intergovernmental	150,230		
Charges for Services			
Miscellaneous			
Interest	165	672	
Total Receipts	<u>321,932</u>	<u>672</u>	
DISBURSEMENTS			
General Government			
Protection to Persons and Property	266,439		
General Health and Sanitation			
Social Services			
Recreation and Culture			
Roads			
Airports			
Debt Service		280,700	187,040
Capital Projects			
Administration			
Total Disbursements	<u>266,439</u>	<u>280,700</u>	<u>187,040</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>55,493</u>	<u>(280,028)</u>	<u>(187,040)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds			
Bond Discount			
Defeasance of 2004 Bond Issue			
Transfers From Other Funds			187,040
Transfers To Other Funds			
Total Other Adjustments to Cash (Uses)			<u>187,040</u>
Net Change in Cash Balances and Cash	55,493	(280,028)	
Cash Balances and Cash Equivalents - Beginning	608,140	4,329,107	17
Cash Balances and Cash Equivalents - Ending	<u>\$ 663,633</u>	<u>\$ 4,049,079</u>	<u>\$ 17</u>

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

HARLAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS
For The Year Ended June 30, 2013
(Continued)

	Unbudgeted Funds		
	Detention Center General Obligation Bond - 2004 Series Fund	Detention Center General Obligation Bond - 2013 Series Fund	Justice Center Public Properties Corporation Refunding Revenue Bonds - 2010 Series Fund
RECEIPTS			
Taxes	\$	\$	\$
Excess Fees			
Licenses and Permits			
Intergovernmental			535,975
Charges for Services			
Miscellaneous			
Interest		1	1
Total Receipts	<u> </u>	<u> 1</u>	<u> 535,976</u>
DISBURSEMENTS			
General Government			
Protection to Persons and Property			
General Health and Sanitation			
Social Services			
Recreation and Culture			
Roads			
Airports			
Debt Service	372,682	70,250	535,975
Capital Projects			
Administration			
Total Disbursements	<u> 372,682</u>	<u> 70,250</u>	<u> 535,975</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u> (372,682)</u>	<u> (70,249)</u>	<u> 1</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds		5,350,000	
Bond Discount		(27,398)	
Defeasance of 2004 Bond Issue		(5,249,215)	
Transfers From Other Funds	372,682		
Transfers To Other Funds			
Total Other Adjustments to Cash (Uses)	<u> 372,682</u>	<u> 73,387</u>	<u> </u>
Net Change in Cash Balances and Cash		3,138	1
Cash Balances and Cash Equivalents - Beginning	3		2,543
Cash Balances and Cash Equivalents - Ending	<u>\$ 3</u>	<u>\$ 3,138</u>	<u>\$ 2,544</u>

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

HARLAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS
For The Year Ended June 30, 2013
(Continued)

	<u>Unbudgeted Fund</u>	
	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS		
Taxes	\$	\$ 4,450,408
Excess Fees		30,294
Licenses and Permits		207,638
Intergovernmental		12,264,381
Charges for Services		1,404,788
Miscellaneous	192,007	528,696
Interest	84	12,932
Total Receipts	<u>192,091</u>	<u>18,899,137</u>
DISBURSEMENTS		
General Government		2,582,490
Protection to Persons and Property		2,870,332
General Health and Sanitation		7,379,572
Social Services		1,307,591
Recreation and Culture	175,602	771,245
Roads		1,807,221
Airports		227,245
Debt Service		1,513,556
Capital Projects		181,404
Administration		2,698,980
Total Disbursements	<u>175,602</u>	<u>21,339,636</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>16,489</u>	<u>(2,440,499)</u>
Other Adjustments to Cash (Uses)		
Bond Proceeds		5,350,000
Bond Discount		(27,398)
Defeasance of 2004 Bond Issue		(5,249,215)
Transfers From Other Funds		4,982,015
Transfers To Other Funds		(4,982,015)
Total Other Adjustments to Cash (Uses)		<u>73,387</u>
Net Change in Cash Balances and Cash	16,489	(2,367,112)
Cash Balances and Cash Equivalents - Beginning	147,354	14,832,884
Cash Balances and Cash Equivalents - Ending	<u>\$ 163,843</u>	<u>\$ 12,465,772</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	15
NOTE 2.	DEPOSITS.....	18
NOTE 3.	TRANSFERS	19
NOTE 4.	TRUST FUNDS.....	19
NOTE 5.	POTENTIAL RECEIVABLE DUE	20
NOTE 6.	RESERVED FOR YOUTH ACTIVITIES AND FACILITIES	20
NOTE 7.	LANDFILL ESCROW ACCOUNT	20
NOTE 8.	LEGAL CONTINGENCIES	21
NOTE 9.	LONG-TERM DEBT.....	21
NOTE 10.	CONTINGENT LIABILITIES.....	25
NOTE 11.	CONDUIT DEBT	25
NOTE 12.	FLEXIBLE SPENDING ARRANGEMENT.....	25
NOTE 13.	EMPLOYEE RETIREMENT SYSTEM	26
NOTE 14.	DEFERRED COMPENSATION.....	27
NOTE 15.	INSURANCE	27
NOTE 16.	NEGATIVE FUND BALANCE	27
NOTE 17.	CHANGE IN BASIS OF ACCOUNTING	27

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2013

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 include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation created 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 following entities: Harlan County Industrial Development Authority, Tucker Guthrie Airport, Sleepy Hollow Golf Course and the Local Emergency Planning Committee (LEPC) would have been included in the reporting entity under accounting principles generally accepted in the United State of America (GAAP) as established by the Government 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 Government Accounting Standards Board. This basis of accounting involves the reporting of cash and cash equivalents 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. The change in basis of accounting may have resulted in changes to the beginning cash balances previously reported under the modified cash basis of accounting.

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, 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 source of receipts for this fund is 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:

Kentucky Association Of Counties (KACO) Lease Trust Program – 2008 Series Fund – This fund is to account for debt service requirements of the KACO Lease. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Kentucky Area Development District (KADD) Lease – 2007 Series Fund – This fund is to account for debt service requirements of the KADD Lease. The Department for Local Government does not require the Fiscal Court to report or budget this fund.

Detention Center General Obligation Bond – 2004 Series Fund – The purpose of this fund is to account for debt service requirements of the general obligation bond, Series 2004. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Detention Center General Obligation Bond – 2013 Series Fund – The purpose of this fund is to account for debt service requirements of the general obligation bond, Series 2013. The Department for Local Government does not require the Fiscal Court to report or budget these 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 report or budget these funds.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those 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 cash basis of accounting 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 Local Emergency Planning Committee Fund, the Kentucky Association of Counties (KACO) Lease Trust Program – 2008 Series Fund, the Kentucky Area Development District (KADD) Lease – 2007 Issue Fund, the Detention Center General Obligation Bond – 2004 Series Fund, the Detention Center General Obligation Bond – 2013 Series Fund, the Justice Center Public Properties Corporation Refunding Revenue Bonds – 2010 Series Fund, or the Jail Commissary 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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Harlan County Elected Officials (Continued):

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 Harlan County, Kentucky.

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

F. Deposits and Investments

The government's cash and cash equivalents are 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.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, 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), Black Mountain Utility District, Cawood Utility District, Library District and Extension District are considered related organizations of 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(4), 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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 2. Deposits (Continued)

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.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On June 30, 2013, the fiscal court's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$52,054

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2013.

	LGEA Fund	Sinking Fund	LGED Fund	Total Transfers In
Road Fund	\$ 1,609,540	\$	\$	\$ 1,609,540
Jail Fund	2,312,753			2,312,753
Sinking Fund	500,000			500,000
KADD Lease - 2007 Issue Fund		187,040		187,040
Detention Center General Obligation Bond - 2004 Series Fund			372,682	372,682
Total Transfers Out	<u>\$ 4,422,293</u>	<u>\$187,040</u>	<u>\$ 372,682</u>	<u>\$ 4,982,015</u>

Reason for transfers:

To move resources from and to multiple 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 – This 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, 2013 was \$226,391.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 4. Trust Funds (Continued):

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, 2013 was \$26,016.

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, 2013 was \$13,817.

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, 2013 was \$284,563.

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 as of June 30, 2013 was \$20,035.

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the Jail Inmate Fund as of June 30, 2013 was \$5,369.

Note 5. Potential Receivable Due

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 9G. Although no formal written agreement existed between the Fiscal Court and the Harlan County Industrial Development Authority Board (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 when the funds are available and will repay the sums paid by the Fiscal Court when funds become available. Despite this agreement, there remains an unresolved issue relating to the necessary repayment of funds from the IDA Board to the Fiscal Court.

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, 2013, the landfill is non-operational and the remaining balance in the account is \$43,063.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

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 up through June 30, 2013 and subsequently up through October 2013 and then 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 2038. The principal balance as of June 30, 2013, is \$4,643,956. Debt service requirements for the fiscal years ending June 30, 2014 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2014	\$ 1,095,224	\$ 212,893
2015	158,461	149,374
2016	165,179	142,656
2017	172,392	135,443
2018	179,851	127,984
2019-2023	1,022,998	516,178
2024-2028	1,264,244	274,931
2029-2030	585,607	30,064
Totals	<u>\$ 4,643,956</u>	<u>\$ 1,589,523</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, 2013, is \$2,615,000. Debt service requirements for the fiscal years ending June 30, 2014 and thereafter are as follows:

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 9. Long-term Debt (Continued)

B. Kentucky Area Development District (KADD) Lease – 2007 Issue (Continued):

Fiscal Year Ended June 30	Principal	Interest
2014	\$ 55,000	\$ 129,175
2015	60,000	126,673
2016	60,000	124,032
2017	65,000	121,250
2018	65,000	118,325
2019-2023	385,000	540,094
2024-2028	485,000	433,175
2029-2033	630,000	292,777
2034-2038	810,000	108,665
Totals	<u>\$ 2,615,000</u>	<u>\$ 1,994,166</u>

C. Detention Center General Obligation Bond – 2004 Series

On September 8, 2004, the county issued \$6,000,000 of General Obligation Bonds. These bonds were issued for the purpose of financing the acquisition, construction, and equipping of a new detention center facility. The county issued General Obligation Bonds, Series 2013, to defease these bonds on May 7, 2013. As of June 30, 2013, the principal balance is considered to be \$0 since the bonds are defeased.

D. 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, 2013, the principal amount outstanding was \$5,350,000.

Fiscal Year Ended June 30	Principal	Interest
2014	\$ 90,000	\$ 102,228
2015	55,000	134,225
2016	210,000	132,900
2017	210,000	130,538
2018	215,000	127,613
2019-2023	1,125,000	574,750
2024-2028	1,275,000	434,981
2029-2033	1,495,000	231,125
2034-2035	675,000	22,181
Totals	<u>\$ 5,350,000</u>	<u>\$ 1,890,541</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 9. Long-term Debt (Continued)

E. Detention Center General Obligation Bond – 2005 Series

On April 27, 2005, the Harlan County Detention Center Public Properties Corporation and the county issued bonds in the amount of \$2,350,000 in order to finish constructing the Harlan County Detention Center. The county used coal severance funds to defease these bonds on April 16, 2012 and they were paid off on March 1, 2013. As of June 30, 2013, the principal amount outstanding is \$0.

F. Justice Center Public Properties Corporation Refunding Revenue Bonds – 2010 Series

On November 23, 2010 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, 2013 is \$6,535,000. Debt service requirements for the fiscal years ending June 30, 2014 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2014	\$ 470,000	\$ 197,875
2015	475,000	188,475
2016	485,000	178,975
2017	495,000	166,850
2018	510,000	152,000
2019-2023	2,830,000	513,525
2024-2025	1,270,000	67,025
Totals	<u>\$ 6,535,000</u>	<u>\$ 1,464,725</u>

G. 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 principal balance as June 30, 2013 is \$124,971. Debt service requirements for the fiscal years ending June 30, 2014 and thereafter are as follows:

Fiscal Year Ended June 30	Principal	Interest
2014	\$ 25,592	\$ 7,395
2015	29,891	6,095
2016	32,073	3,913
2017	34,434	1,552
2018	2,981	17
Totals	<u>\$ 124,971</u>	<u>\$ 18,972</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 9. Long-term Debt (Continued)

H. Financing Obligation – Sheriff’s Vehicles

On February 24, 2010 the Harlan County Fiscal Court entered into a 4-year financing obligation with Kansas State Bank for the purchase of four vehicles for the sheriff’s office. Principal and interest payments are due annually in March. The debt was satisfied in March 2013 so the principal balance at June 30, 2013 is \$0.

I. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Kentucky Association of Counties (KACO) Lease Trust Program - Series 2008	\$ 4,740,053	\$	\$ 96,097	\$ 4,643,956	\$ 1,095,224
Kentucky Area Development District (KADD) Lease - 2007 Issue	2,670,000		55,000	2,615,000	55,000
Detention Center General Obligation Bond - 2004 Series deceased with	5,260,000		5,260,000		
Detention Center General Obligation Bond - 2013 Series		5,350,000		5,350,000	90,000
Justice Center Public Properties Corporation Refunding Revenue Bonds - 2010 Series	6,865,000		330,000	6,535,000	470,000
Industrial Development Authority Building	151,057		26,086	124,971	25,952
Sheriff’s Vehicles	27,717		27,717		
Total Long-term Debt	<u>\$ 19,713,827</u>	<u>\$ 5,350,000</u>	<u>\$ 5,794,900</u>	<u>\$ 19,268,927</u>	<u>\$ 1,736,176</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

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 2013, the Fiscal Court expended \$215 for interest payments. As of June 30, 2013, the ending principal balance of the line of credit was \$98,707.

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, 2013, the ending principal balance of the loan is \$165,792.

Note 11. Conduit Debt

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 Harlan County Fiscal Court. As of June 30, 2013, the outstanding principal balance due was \$1,215,000.

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 employee(s) account(s). Employees are required to provide the Treasurer documentation of expenses prior to receiving reimbursement. As of June 30, 2013, the County maintained \$161 for employees.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 13. Employee Retirement System

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. 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.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 19.55 percent.

The county's contribution for FY 2011 was \$622,835, FY 2012 was \$712,777, and FY 2013 was \$755,215.

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 (members 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.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of 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:

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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

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.

These deferred compensation plans permits 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, 2013, 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 a 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. Negative Fund Balance

As of June 30, 2013, the General Fund had a negative fund balance in the amount of \$1,334,479. The Harlan County Fiscal Court maintains all or a portion of the General Fund, Road Fund, Jail Fund, LGEA Fund, Sinking Fund, LGED Fund, and the E911 Fund in one general purpose bank account. The available cash from these other funds in the bank account allowed the County to overspend the fund balance, without overdrawing the bank account. Subsequently, during fiscal year 2014, bond proceeds maintained in the Kentucky Association of Counties (KACO) Lease Trust Program – 2008 Series Fund were transferred to the General Fund, to eliminate the negative fund balance.

Note 17. Change in Basis of Accounting

Harlan County, Kentucky, has changed its basis of accounting from presenting its financial statements in accordance with the modified cash basis of accounting and relevant Government Accounting Standards Board (GASB) pronouncements to the regulatory basis of accounting as prescribed or permitted by the Department for Local Government and the laws of the Commonwealth of Kentucky.

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HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2013

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2013

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,676,000	\$ 2,676,000	\$ 4,276,905	\$ 1,600,905
In Lieu Tax Payments	30	30		(30)
Excess Fees	505	505	30,294	29,789
Licenses and Permits	133,000	133,000	207,638	74,638
Intergovernmental	1,297,600	1,297,600	1,918,131	620,531
Charges for Services	1,251,000	1,251,000	1,372,250	121,250
Miscellaneous	25,000	25,000	267,850	242,850
Interest	12,000	12,000	6,459	(5,541)
Total Receipts	<u>5,395,135</u>	<u>5,395,135</u>	<u>8,079,527</u>	<u>2,684,392</u>
DISBURSEMENTS				
General Government	2,640,000	2,546,310	2,467,902	78,408
Protection to Persons and Property	148,150	136,150	120,293	15,857
General Health and Sanitation	2,467,000	2,850,859	4,258,802	(1,407,943)
Social Services	120,000	198,731	201,436	(2,705)
Airports	200,000	124,000	227,245	(103,245)
Debt Service	58,000	64,000	66,909	(2,909)
Capital Projects	10,000	26,500	26,535	(35)
Administration	1,655,616	1,352,216	1,550,929	(198,713)
Total Disbursements	<u>7,298,766</u>	<u>7,298,766</u>	<u>8,920,051</u>	<u>(1,621,285)</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(1,903,631)</u>	<u>(1,903,631)</u>	<u>(840,524)</u>	<u>1,063,107</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(1,481,300)	(1,481,300)		1,481,300
Borrowed Money	<u>1,500,000</u>	<u>1,500,000</u>		<u>(1,500,000)</u>
Total Other Adjustments to Cash (Uses)	<u>18,700</u>	<u>18,700</u>		<u>(18,700)</u>
Net Change in Cash Balances and Cash Equivalents	(1,884,931)	(1,884,931)	(840,524)	1,044,407
Cash Balances and Cash Equivalents - Beginning	<u>1,884,931</u>	<u>1,884,931</u>	<u>(493,955)</u>	<u>(2,378,886)</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (1,334,479)</u>	<u>\$ (1,334,479)</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 1,600	\$ 1,600	\$ 1,966	\$ 366
Intergovernmental	1,574,400	1,574,400	1,888,734	314,334
Miscellaneous			8,482	8,482
Interest	4,000	4,000	2,599	(1,401)
Total Receipts	<u>1,580,000</u>	<u>1,580,000</u>	<u>1,901,781</u>	<u>321,781</u>
DISBURSEMENTS				
Roads	2,164,500	2,174,446	1,799,268	375,178
Administration	523,600	513,654	333,224	180,430
Total Disbursements	<u>2,688,100</u>	<u>2,688,100</u>	<u>2,132,492</u>	<u>555,608</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,108,100)</u>	<u>(1,108,100)</u>	<u>(230,711)</u>	<u>877,389</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	510,000	510,000	1,609,540	1,099,540
Total Other Adjustments to Cash (Uses)	<u>510,000</u>	<u>510,000</u>	<u>1,609,540</u>	<u>1,099,540</u>
Net Change in Cash Balances and Cash Equivalents	(598,100)	(598,100)	1,378,829	1,976,929
Cash Balances and Cash Equivalents - Beginning	<u>598,100</u>	<u>598,100</u>	<u>1,809,398</u>	<u>1,211,298</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,188,227</u>	<u>\$ 3,188,227</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,035,000	\$ 1,035,000	\$ 985,372	\$ (49,628)
Charges for Services	34,000	34,000	32,538	(1,462)
Miscellaneous	27,500	27,500	60,357	32,857
Total Receipts	<u>1,096,500</u>	<u>1,096,500</u>	<u>1,078,267</u>	<u>(18,233)</u>
DISBURSEMENTS				
Protection to Persons and Property	1,823,000	1,916,800	2,019,926	(103,126)
Administration	733,000	639,200	601,091	38,109
Total Disbursements	<u>2,556,000</u>	<u>2,556,000</u>	<u>2,621,017</u>	<u>(65,017)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,459,500)</u>	<u>(1,459,500)</u>	<u>(1,542,750)</u>	<u>(83,250)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,459,500	1,459,500	2,312,753	853,253
Total Other Adjustments to Cash (Uses)	<u>1,459,500</u>	<u>1,459,500</u>	<u>2,312,753</u>	<u>853,253</u>
Net Change in Cash Balances and Cash Equivalents			770,003	770,003
Cash Balances and Cash Equivalents - Beginning			<u>(683,850)</u>	<u>(683,850)</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 86,153</u>	<u>\$ 86,153</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,900,000	\$ 1,900,000	\$ 2,483,341	\$ 583,341
Interest	6,000	6,000	1,394	(4,606)
Total Receipts	<u>1,906,000</u>	<u>1,906,000</u>	<u>2,484,735</u>	<u>578,735</u>
DISBURSEMENTS				
General Government	148,500	149,143	57,832	91,311
Protection to Persons and Property	75,000	75,000	46,076	28,924
General Health and Sanitation	422,600	444,953	298,778	146,175
Recreation and Culture	460,000	548,861	466,744	82,117
Administration	377,100	265,243	213,736	51,507
Total Disbursements	<u>1,483,200</u>	<u>1,483,200</u>	<u>1,083,166</u>	<u>400,034</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>422,800</u>	<u>422,800</u>	<u>1,401,569</u>	<u>978,769</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(1,488,200)</u>	<u>(1,488,200)</u>	<u>(4,422,293)</u>	<u>(2,934,093)</u>
Total Other Adjustments to Cash (Uses)	<u>(1,488,200)</u>	<u>(1,488,200)</u>	<u>(4,422,293)</u>	<u>(2,934,093)</u>
Net Change in Cash Balances and Cash Equivalents	(1,065,400)	(1,065,400)	(3,020,724)	(1,955,324)
Cash Balances and Cash Equivalents - Beginning	<u>1,065,400</u>	<u>1,065,400</u>	<u>6,180,334</u>	<u>5,114,934</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,159,610</u>	<u>\$ 3,159,610</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 248,750	\$ (251,250)
Interest	100	100	87	(13)
Total Receipts	<u>500,100</u>	<u>500,100</u>	<u>248,837</u>	<u>(251,263)</u>
DISBURSEMENTS				
Protection to Persons and Property	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>	<u>87</u>	<u>115,087</u>
Net Change in Cash Balances and Cash Equivalents	(115,000)	(115,000)	87	115,087
Cash Balances and Cash Equivalents - Beginning	<u>115,000</u>	<u>115,000</u>	<u>115,948</u>	<u>948</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 116,035</u>	<u>\$ 116,035</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

SINKING FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 2,500	\$ 2,500	\$ 1,470	\$ (1,030)
Total Receipts	<u>2,500</u>	<u>2,500</u>	<u>1,470</u>	<u>(1,030)</u>
DISBURSEMENTS				
Debt Service	992,500	805,460		805,460
Administration	10,000	10,000		10,000
Total Disbursements	<u>1,002,500</u>	<u>815,460</u>		<u>815,460</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,000,000)</u>	<u>(812,960)</u>	<u>1,470</u>	<u>814,430</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,000,000	1,000,000	500,000	(500,000)
Transfers To Other Funds		(187,040)	(187,040)	
Total Other Adjustments to Cash (Uses)	<u>1,000,000</u>	<u>812,960</u>	<u>312,960</u>	<u>(500,000)</u>
Net Change in Cash Balances and Cash Equivalents			314,430	314,430
Cash Balances and Cash Equivalents - Beginning			(40,900)	(40,900)
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 273,530</u>	<u>\$ 273,530</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 4,000,000	\$ 4,000,000	\$ 4,053,848	\$ 53,848
Total Receipts	4,000,000	4,000,000	4,053,848	53,848
DISBURSEMENTS				
General Government	25,000	52,740	56,756	(4,016)
Protection to Persons and Property	150,000	144,000	168,848	(24,848)
General Health and Sanitation	2,025,000	2,382,000	2,821,992	(439,992)
Social Services	550,000	698,260	1,106,155	(407,895)
Recreation and Culture	50,000	85,000	128,899	(43,899)
Roads	150,000	104,000	7,953	96,047
Debt Service	1,000,000	187,318		187,318
Capital Projects	150,000	74,000	154,869	(80,869)
Total Disbursements	4,100,000	3,727,318	4,445,472	(718,154)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(100,000)	272,682	(391,624)	(664,306)
Other Adjustments to Cash (Uses)				
Transfers To Other Funds		(372,682)	(372,682)	
Total Other Adjustments to Cash (Uses)		(372,682)	(372,682)	
Net Change in Cash Balances and Cash Equivalents	(100,000)	(100,000)	(764,306)	(664,306)
Cash Balances and Cash Equivalents - Beginning	100,000	100,000	2,858,745	2,758,745
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 2,094,439	\$ 2,094,439

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

	EMERGENCY 911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 160,000	\$ 160,000	\$ 171,537	\$ 11,537
Intergovernmental	120,000	120,000	150,230	30,230
Interest	500	500	165	(335)
Total Receipts	<u>280,500</u>	<u>280,500</u>	<u>321,932</u>	<u>41,432</u>
DISBURSEMENTS				
Protection to Persons and Property	370,000	470,000	266,439	203,561
Administration	113,520	13,520		13,520
Total Disbursements	<u>483,520</u>	<u>483,520</u>	<u>266,439</u>	<u>217,081</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(203,020)</u>	<u>(203,020)</u>	<u>55,493</u>	<u>258,513</u>
Net Change in Cash Balances and Cash Equivalents	(203,020)	(203,020)	55,493	258,513
Cash Balances and Cash Equivalents - Beginning	<u>203,020</u>	<u>203,020</u>	<u>608,140</u>	<u>405,120</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 663,633</u>	<u>\$ 663,633</u>

HARLAN COUNTY
NOTES TO SUPPLEMENTARY INFORMATION

June 30, 2013

Note 1. Budgetary Information

Annual budgets are adopted on a cash 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 Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

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

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

Note 2. Excess of Disbursements Over Appropriations

General Fund disbursements exceeded budgeted appropriations by \$1,621,285, Jail Fund disbursements exceeded budgeted appropriations by \$65,017, and Local Government Economic Development (LGED) Fund disbursements exceeded budgeted appropriations by \$718,154.

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HARLAN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HARLAN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2013

Federal Grantor Program Title Grant Name (CFDA #)	Pass-Through Grantor's Number	Expenditures
Cash Programs:		
<u>U.S. Department of Commerce</u>		
Direct Program: Administered by the National Oceanic and Atmospheric Administration		
Congressionally Identified Awards and Projects - PRIDE Grant (CFDA 11.469)	Not Available	\$ 6,250
<u>U.S. Department of Housing and Urban Development</u>		
<i>Passed Through Department for Local Government:</i>		
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii - Cumberland Hope Community Project (CFDA 14.228)	05-024	248,750
<u>U.S. Department of Transportation</u>		
<i>Passed Through Kentucky Transportation Cabinet:</i>		
Airport Improvement Program - (CFDA 20.106)	Not Available	203,480
<i>Passed Through Kentucky Department for Local Government</i>		
Recreation Trails Program - Black Mountain Off Road Adventure Park Trail Extension and Maintenance (CFDA 20.219)	Not Available	18,726
<i>Passed Through Kentucky Transportation Cabinet</i>		
State and Community Highway Safety - Police Traffic Services (CFDA 20.600)	Not Available	<u>2,602</u>
Total U.S. Department of Transportation		224,808
<u>U.S. Department of Homeland Security</u>		
<i>Passed Through Kentucky Department of Military Affairs</i>		
Emergency Management Performance Grants - Emergency Planning and Preparedness Activities (CFDA 97.042)	Not Available	<u>26,818</u>
Total Cash Expenditures of Federal Awards		<u>\$ 506,626</u>

HARLAN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2013

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Harlan County, Kentucky and 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 Government Accounting Standards Board. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Determination of Major Program

The Type A program for the fiscal year is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2013 or were deemed high risk. There were no Type A programs. The major programs tested were:

- CFDA 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
- CFDA 20.106 – Airport Improvement Program

Note 3 - Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2013.

HARLAN COUNTY
SUPPLEMENTARY SCHEDULE
Other Information - Regulatory Basis

For The Year Ended June 30, 2013

HARLAN COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2013

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,057,234	\$	\$	\$ 2,057,234
Buildings	21,092,633	1,221,800		22,314,433
Vehicles and Equipment	2,551,876	469,401		3,021,277
Other Equipment	993,156			993,156
Infrastructure	47,141,135			47,141,135
 Total Capital Assets	 <u>\$ 73,836,034</u>	 <u>\$ 1,691,201</u>	 <u>\$ 0</u>	 <u>\$ 75,527,235</u>

HARLAN COUNTY
NOTES TO OTHER INFORMATION

June 30, 2013

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

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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dan Mosley, Harlan County Judge/Executive
The Honorable Joseph A. Grieshop, Former 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 Cash Balances and Cash Equivalents - Regulatory Basis of the Harlan County Fiscal Court for the fiscal year ended June 30, 2013, and the related notes to the financial statement and have issued our report thereon dated December 22, 2014.

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 to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing out 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 schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-03, 2013-04, 2013-05, 2013-06, 2013-07, 2013-08, 2013-09, 2013-10, 2013-11, and 2013-12 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of 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 questioned costs as items 2013-01 and 2013-02.

County Judge's Response to Findings

The former Harlan County Judge's and former Harlan County Jailer's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The former County Judge's and former County 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,



Adam H. Edelen
Auditor of Public Accounts

December 22, 2014

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dan Mosley, Harlan County Judge/Executive
The Honorable Joseph A. Grieshop, Former Harlan County Judge/Executive
Members of the Harlan County Fiscal Court

Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited Harlan County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. Harlan County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Harlan County's major federal programs based on our audit of the types of compliance requirement referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the compliance audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Harlan County's compliance.



Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Opinion on Each Major Federal Program

In our opinion, Harlan County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to above that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-04. Our opinion on each major federal program is not modified with respect to this matter.

The Former Harlan County Judge Executive's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Former Harlan County Judge Executive's response and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Harlan County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harlan County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harlan County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, or material weaknesses or significant deficiencies, may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-04 that we consider to be a material weakness.

Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Report on Internal Control over Compliance (Continued):

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance, and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

December 22, 2014

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

For The Year Ended June 30, 2013

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

Fiscal Year Ended June 30, 2013

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the statement of Receipts, Disbursements, and Changes in Cash Balance and Cash Equivalents – Regulatory Basis of Harlan County.
2. Ten material weaknesses and no significant deficiencies relating to the audit of the financial statement are reported in the Independent Auditor's Report.
3. Two instances of noncompliance material to the financial statement of Harlan County were disclosed during the audit.
4. One material weakness and no significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Harlan County expresses an unmodified opinion.
6. There is one finding relative to the major federal awards programs for Harlan County reported in Part C of this schedule.
7. The programs tested as major programs were: Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (CFDA 14.228) and Airport Improvement Program (CFDA 20.106).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Harlan County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

2013-01 The Fiscal Court Should Follow Bid Requirements On All Disbursements Over \$20,000

During our test of disbursements, we noted the Fiscal Court paid for repairs to the geothermal heating and air system at the Detention Center in the amount of \$72,526. The Fiscal Court did not advertise or accept bids for this expense, and the need for repairs was not declared an emergency. By review of invoices, we noted services were performed over a period of two months, which indicates sufficient time was available to advertise for bids and obtain cost estimates.

KRS 424.260(1) states "no county may make a contract, lease, or other agreement for materials, supplies, or contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." Internal controls did not operate effectively to identify a liability in excess of the bid threshold. As a result, the County may have overpaid for services. We recommend the Fiscal Court ensure compliance with KRS by advertising for and obtaining bids for disbursements over \$20,000.

Former County Judge/Executive's Response: The geothermal system failed during a July 4th Holiday weekend. This was midway between fiscal court meetings. The inmate population was on the verge of needing to be transported elsewhere. The system vault area was dug up and repaired when a failure occurred again. We had to look inside the building for answers. We could not and still do not have a maintenance contract. This was addressed several times in court meetings as an emergency but not recorded as such. Harlan County Fiscal Court will comply with the procurement procedure for projects \$20,000 or more.

HARLAN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2013
 (Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS (CONTINUED):

2013-02 The Fiscal Court Should Consult With County Attorney And Energy And Environment Cabinet To Determine Proper Disposition Of Landfill Escrow Funds

During our review of the County landfills, we noted one landfill is no longer operational. The Fiscal Court received notification from the Energy and Environment Cabinet and the Kentucky Division of Waste Management, in a letter dated June 5, 2012, of a Construction Quality Assurance Report/Documentation to provide assistance with long term post-closure operation and maintenance. A subsequent letter on September 9, 2013 informed the Fiscal Court of their responsibilities for termination, and maintenance of the landfill and its structures. As of audit date, the landfill has not been officially closed, but is considered non-operational. 401 KAR 48:310(6) states, "the owner or operator of each solid waste site or facility shall provide closure care as required under Section 3 of 401 KAR 48:060, Section 13 of 401 KAR 48:090, and Section 3 of 401 KAR 48:170 for the required period following the cabinet's acceptance of closure." There is a remaining balance of \$43,063 in an escrow account for the purpose of landfill closure. Failure to maintain the landfill can result in Notice of Violations from Division of Waste Management or other state or federal agencies. In order to avoid future environmental violations and possible penalties, the County should ensure proper closure of the landfill.

We recommend the Fiscal Court consult with the County Attorney and the Energy and Environment Cabinet to determine proper disposition of the remaining funds and perform the necessary procedures to properly close the nonoperational landfill.

Former County Judge/Executive's Response: Currently, the state maintains control of the landfill in question and the County will follow the guidance and directives received from the state to ensure proper closure of the landfill and in turn allowing the county to receive the funds placed in escrow.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2013-03 The Fiscal Court Should Improve Internal Controls Over Financial Reporting

During the course of the audit, we identified the following weaknesses over financial reporting:

- The General Fund had a negative ending fund balance of \$1,334,479. The County uses one bank account for multiple funds. As a result, restricted fund monies were utilized for General Fund disbursements, in which adequate General Fund monies were not available.
- Receipt and disbursement ledgers were not maintained for the Justice Center Public Properties Corporation Refunding Revenue Bonds – 2010 Series Fund bank accounts.
- The Treasurer was unaware of the bank account used for the Detention Center General Obligation Bond – 2013 Series Fund. As a result, bond proceeds of \$5,215,603 and principal payments of \$5,249,215 were omitted from the financial statement prepared by the Treasurer.
- Principal payment of \$140,000 and interest payment of \$117,566 were not properly processed through the Fiscal Court's Detention Center General Obligation Bond – 2004 Series Fund bank account. Although the payments were remitted in a timely manner, the bank erroneously processed the payment. The Fiscal Court received credit for this payment; however, the Treasurer did not detect the error. No reconciliations were performed for payments made by the County and payments processed through bond bank accounts.

HARLAN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2013
 (Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2013-03 The Fiscal Court Should Improve Internal Controls Over Financial Reporting (Continued):

- Breakdown of receipts and disbursements by fund of a general purpose checking account was not performed on a monthly basis. Although the Treasurer prepared monthly breakdowns by funds, these schedules were prepared at the request of auditors. Without monthly breakdowns, and comparisons to receipts and disbursement ledgers, the Treasurer could not have reliably verified ending cash fund balances.
- No cash transfers were approved by the Fiscal Court.
- The Quarterly Financial Report for the period ending June 30, 2013 was not submitted to the Department for Local Government (DLG).
- Monthly financial reports to show summary of receipts and disbursements by fund were not presented to the Fiscal Court monthly.
- General Fund disbursements exceeded the budgeted appropriations on six line items for a total of \$1,621,285, Jail Fund disbursements exceed budgeted appropriations on one line item by \$65,017, and Local Government Economic Development (LGED) Fund disbursements exceeded budgeted appropriations on six line items for a total of \$718,154.

The weaknesses over financial reporting noted above meant fiscal court did not have accurate financial data to use for analysis when making financial decisions.

KRS 68.360(1) states, “[t]he county treasurer shall balance his books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made, and shall within ten (10) days file with the county judge/executive and members of the fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all cash receipts and the cash balance at the beginning and at the end of the month, certifying that each warrant or contract is within the budget appropriation.”

KRS 68.210 states, in part, “the administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials... He may require all officials of all local governments and local taxing districts to submit such financial reports as he may deem proper. He may investigate, examine, and supervise the accounts and operations of all local governments and local government officers.”

KRS 68.020(1) states, in part, “[t]he county treasurer... shall disburse such money in such manner and for such purpose as may be authorized by appropriate authority of the fiscal court.” Per KRS 68.300, “any appropriation made or claim allowed by the fiscal court in excess of any budget fund shall be void.” These findings are the result of inadequate segregation of duties over receipts, cash transfers, and bank reconciliations, as described in comment #2013-05.

We recommend the Fiscal Court strengthen internal controls over financial reporting to ensure financial reports are accurate and complete, and submitted to the Fiscal Court and DLG in a timely manner. This can be achieved by performing monthly reconciliation procedures in which the Treasurer verifies bank statements are available for all accounts, receipt and disbursement ledgers are prepared for all funds including debt accounts, and receipts and disbursements by bank accounts are reconciled to receipt and disbursement ledgers for each fund.

HARLAN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2013
 (Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2013-03 The Fiscal Court Should Improve Internal Controls Over Financial Reporting (Continued):

Former County Judge/Executive's Response: The general fund ended in a negative balance due to the cash balance from a bond fund being shown separately from the county financial statement, although in prior years it was shown on the financial statement, which was incorrect. Those funds were used to reimburse the general fund but were not received until fiscal year 2014 and eliminated any negative fund balance. This was pointed out to audit staff who agreed they understood what took place and the funds were available to reimburse the County's General Fund, but that we still must show these funds separately. Therefore, it appeared as though the general fund had a negative balance even though the county had the cash in the bond fund to reimburse the general fund. Also, the county now has processes in place to monitor each bond fund for correct payment processing by the bank as all bond funds are accounted for separately from the financial statement and have a monthly reconciliation performed each month. At the time, the treasurer was only reconciling the transaction detail of each bond account and stating revenues and disbursements as a total shown on the financial statement. After working with audit staff, we realized additional information needed to be included on those statements and have followed the direction of audit staff. Additionally, all financial reports are being done timely and will be approved separately and included with the minutes, including all cash transfers to ensure that all monthly reports can be properly recognized. We will ensure that all line items do not exceed their budget appropriations by doing budget amendments in a timely manner.

2013-04 The Treasurer Should Ensure The Schedule Of Expenditures Of Federal Awards Is Complete And Accurate

Although the Treasurer prepared a Schedule of Expenditures of Federal Awards (SEFA); our procedures determined the SEFA was not complete and accurate. There were three grants, totaling \$48,146, omitted from the schedule prepared by the Treasurer. Further, the SEFA incorrectly included non-federal expenditures, did not identify the awarding Federal Agencies, and did not include the Catalogue of Federal Domestic Assistance (CFDA) numbers for each program.

The Single Audit Act of 1984, as amended, established requirements for audits of federal grant funds under OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* in which any entity that expends more than \$500,000 in federal awards is required to undergo a Single Audit. Harlan County was required to have a Single Audit for the fiscal year ended June 30, 2013. However, if auditors had not identified the omission of federal expenditures reported on the SEFA, the County may have been at risk for losing federal funding in the future.

It appears the Treasurer was not aware of all sources of Federal funding because several different individuals, in different departments, are responsible for applying for and administering grant documents. We recommend the Treasurer ensure a complete and accurate SEFA is prepared. The SEFA should include the following, if applicable:

HARLAN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2013
 (Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2013-04 The Treasurer Should Ensure The Schedule Of Expenditures Of Federal Awards Is Complete And Accurate (Continued)

- A listing of Federal programs by Federal agency
- Provide total Federal awards expended for each individual Federal program and the Catalogue of Federal Domestic Assistance (CFDA number or other identifying number when the CFDA information is not available.)

Former County Judge/Executive's Response: The treasurer did not receive all documentation necessary to complete the SEFA, however we will attempt to obtain all necessary documentation by again making all departments aware that all documentation for federally funded grants awarded is to be turned into the Treasurer's office to ensure the SEFA is correct.

2013-05 The County Lacks Adequate Segregation Of Duties Over Receipts, Cash Transfers And Bank Reconciliations

A lack of segregation of duties exists over receipts, cash transfers and bank reconciliations. The County Treasurer is responsible for preparing deposits, posting to the receipts ledger, recording cash transfers between funds, preparing monthly bank reconciliations, and preparing quarterly financial reports. No documented compensating controls were identified to offset this material weakness. As a result, errors in financial reporting occurred and were not detected or corrected in a timely manner (see comment #2013-03). To adequately protect assets from misappropriation and/or inaccurate financial reporting, duties involving deposit preparation, recording of receipts, transfers of monies between funds, and the bank reconciliation process should be separated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Compensating controls may also be implemented to reduce the risks associated with a lack of adequate segregation of duties. We recommend the duties over receipts, cash transfers and bank reconciliations be separated. The Fiscal Court can also strengthen internal controls by implementing the following compensating controls:

- An independent employee could prepare a list of all receipts for comparison to the Treasurer's deposits and receipt ledger. This list should include details such as the date received, the check or cash amount, who it is from, and the purpose. The comparison of the receipt list to the Treasurer's records should be documented.
- An independent employee could open and review bank statements for unusual items; while paying particular attention to transfers between funds by check.
- An independent employee could review the Treasurer's bank reconciliations for accuracy and compare reconciled balances to ending fund balances. This review should be documented on the bank reconciliation.

Former County Judge/Executive's Response: The County has attempted to add controls to effectively segregate the duties of any one employee. Currently, one employee picks up the mail, while yet another opens the mail and turns over any checks received to the treasurer's office. The deposits are received and prepared by an employee of the treasurer's office, and then taken to the bank by yet another employee. Additionally, a separate employee then posts the deposits to the ledgers. All cash transfers are being approved by fiscal court at the court meeting separately, and recorded with the minutes. Additionally, all bank reconciliations will be reviewed in the county judge executive's office once completed by the treasurer.

HARLAN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2013
 (Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2013-06 Lack Of Effective Monitoring Has Resulted In Lost Revenues Of \$391,919

While reviewing state payments to the Fiscal Court, we noted five payments to the County for controlled intake/other care and support due to the Jail Fund, totaling \$488,215, were not received or deposited. These payments for August, October, November and December 2012 and January 2013 were either escheated/voided, or redeposited by the Commonwealth of Kentucky. In January 2014, the Fiscal Court was notified of unclaimed property of \$96,296 for October 2012. The County received these funds in February 2014.

Effective internal controls require monthly monitoring to ensure recurring revenues are received and deposited in a timely manner, and recurring expenses are paid timely. Monthly comparisons of budgeted receipts to actual receipts and reconciliations should identify instances in which the County has not received monies due. Weak or absent monitoring procedures resulted in lost revenues of \$391,919 during the fiscal year.

We recommend the Fiscal Court strengthen internal controls over monitoring to ensure monthly reviews are performed, and budgeted amounts are regularly compared to actual receipts. Any variances should be investigated and resolved. The Treasurer should contact the Kentucky State Treasurer to determine if lost Jail Fund revenues can be obtained.

Former County Judge/Executive's Response: The County has already been in contact with Department of Corrections and Kentucky State Treasurer and is in the process of obtaining all funds that were not received.

2013-07 The Fiscal Court Should Improve Internal Controls Over Payroll Procedures

During our review of the County's payroll processing, we noted several deficiencies in the documentation, preparation, and presentation of payroll items. The following issues were noted during payroll testing:

- Salaried employees do not prepare timesheets
- Salaried employees' vacation and sick leave is not maintained or monitored by the Fiscal Court
- Jail timesheets are not signed by the employee or the supervisor
- Sheriff's Department timesheets are not always signed by employees
- A policy for medical co-pays and insurance deductible reimbursement up to \$500 per employee is not reflected in the Administrative Code

Good internal controls dictate that all employees, except those statutorily exempt from this requirement, maintain and submit timesheets for payroll processing. To further strengthen internal controls, timesheets should be signed by employees and by the employees' immediate supervisor for verification and attestation of the accuracy of time reported. Lack of proper internal controls for payroll increases the risk that incorrect payroll information will be processed by the County and that these errors will not be identified and corrected.

We recommend the Fiscal Court implement the following internal control procedures to ensure the proper documentation, preparation, calculation, and presentation of payroll related items:

- The Fiscal Court should require all employees to submit timesheets and timesheets be signed by the employee and the supervisor in order to confirm the validity of hours worked.
- The Fiscal Court should ensure that vacation and sick leave time is applied consistently and that documentation is maintained for all employees.

HARLAN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2013
 (Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2013-07 The Fiscal Court Should Improve Internal Controls Over Payroll Procedures (Continued)

- The Fiscal Court should ensure that all employee benefits are applied consistently and reflected in the Administrative Code.

Former County Judge/Executive's Response: The County will implement policies and procedures for record keeping of salary employees' sick and vacation time and require that all staff clock in and out in all departments. We are looking to update equipment to allow us to track all time accurately by all employees. The practice of reimbursing employees' deductibles was ceased as of fiscal year 2014.

2013-08 The Fiscal Court Should Improve Internal Controls Over Waste Removal Collections

The County has entered into a written agreement with a waste removal company for the collection of residential and commercial solid waste throughout Harlan County. Per the agreement, the County should withhold ten percent (10%) of the residential fees collected and remit the remaining balance to the waste removal company.

Rather than collecting these residential waste collection fees, the County has entered into verbal agreements with six utility districts in which the utility districts collect residential payments for waste removal on behalf of the County. These districts are permitted to retain a 6.5% commission from gross collections, and then remit the remainder to the County. Since the districts retain 6.5% for commissions, the County should withhold the remaining 3.5%, for a total of 10%, before remitting the remaining balance to the waste removal company. However, during fiscal year 2013, the County did not withhold 3.5% of waste collection fees before paying the waste removal company. As a result, the County did not retain revenues of \$44,244.

Further inquiry determined the utility districts do not provide monthly collection reports or lists of delinquent residents to the County. As such, the County cannot verify the amount of gross residential garbage removal fees collected by the districts, or the amount of garbage removal fees remitted to the County. Lack of delinquent lists prevents the County from effectively monitoring uncollected revenues. Lack of internal controls to document waste removal collection processes, and financial reporting allowed these findings to occur without detection.

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. The Treasurer should ensure the County's 3.5% commission be withheld from waste removal collections, prior to remitting payment to the waste removal company. The Fiscal Court should consult with the County Attorney regarding collection of lost revenue erroneously paid to the waste removal company. 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, as necessary.

Former County Judge/Executive's Response: The County did not retain the revenues of 3.5% in Fiscal Year 2013, however, in Fiscal Year 2014, the county agreed with the waste removal company to withhold additional revenues due the vendor to make up the difference of lost revenues for 2013. The county currently withholds 3.5% of revenues before disbursing to the vendor. The County is also in the process of setting up computer software to help effectively monitor at least 4 of the utility districts. This software will allow us to bill the districts each month based on what they have collected throughout the month. It will also give us a true accounting of what customers are delinquent and the total delinquencies for those districts.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2013-09 The Fiscal Court Should Attempt To Resolve Potential Industrial Development Authority Board Receivable

During the course of the audit, we determined there is an unresolved issue related to the Industrial Development building property loan. Although an agreement, dated May 22, 2009, “reduced to writing” the intent and practice of the Fiscal Court and the Industrial Development Authority (IDA) Board, it is unclear if both parties have come to an agreement regarding the account receivable.

This agreement does not specify amount due, remaining debt principal or interest outstanding, or estimated monthly debt payment amounts. Without a clear conclusion regarding this issue, neither party knows for certain the amount owed, or due, and therefore, cannot accurately budget accordingly. Not resolving the issue also complicates matters such as insurance liability and any lease agreements held with tenants. We recommend the Fiscal Court consult with legal counsel, and communicate with the IDA Board to resolve this issue. Conclusions should be documented through updated agreements and reflection in both the Fiscal Court minutes and IDA Board minutes.

Former County Judge/Executive’s Response: The County will work with legal counsel to resolve this issue, and make sure all decisions are clearly reflected in the minutes of both organizations.

2013-10 The Fiscal Court Should Review Insurance Policy

During our review of the County’s insurance policy, we noted the assets of the Tucker-Guthrie Airport, Sleepy Hollow Golf Course, the Harlan County Industrial Development Authority Board, and the Harlan County Outdoor Recreation Board Authority (HCORBA) are included on the County’s insurance policy. Effective internal controls should ensure taxpayer funds are used to only insure County assets. Per inquiry with the County’s insurance provider, the County cannot legally insure items it does not own. As a result of this oversight, the County may have paid higher insurance costs than necessary. In order to obtain complete and accurate insurance coverage and to avoid overpaying premiums, we recommend the Fiscal Court review the insurance policy and remove assets that are not owned by the Fiscal Court.

Former County Judge/Executive’s Response: The County will review the insurance policy and contact component units to determine insurance liabilities and inform them of their duties to maintain their own insurance policies.

2013-11 The Fiscal Court Should Consult With County Attorney Regarding Leased Flood Plain Properties

During our review of the County’s flood plain properties, we determined the Fiscal Court has leased hundreds of properties to individuals for purposes such as gardening, parking, or additional yard space. However, auditors noted several agreements for other purposes, such as a recreational fish area, a recreational area for kids, an RV park, and a paint ball range. While many agreements are written and signed, management also informed auditors verbal agreements exist.

HARLAN COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2013
 (Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

2013-11 The Fiscal Court Should Consult With County Attorney Regarding Leased Flood Plain Properties
 (Continued)

Good internal controls require written lease agreements to document mutual understanding of the use of identified properties. Despite the written lease agreements on file, there is a potential risk of damages and liability issues that may occur from leasing flood plain properties for such purposes. Further, written agreements do not appear to be filed in an orderly fashion and an inventory of flood plain properties noting those with written agreements, with verbal agreements, or unused is not maintained. As a result of these conditions, the Fiscal Court cannot adequately assess the overall impact or potential risk to the County.

We recommend the Fiscal Court consult with the County Attorney to assess this risk and determine if the Fiscal Court should lease flood plain property. In addition, the Fiscal Court should improve internal controls to require a listing of flood plain properties be maintained and updated accordingly.

Former County Judge/Executive's Response: The County will consult with County Attorney, while also preparing a new, standardized form for all leased tracts of flood plain properties to ensure proper use of the properties and also to minimize any risk associated with the County.

2013-12 The Jail Commissary Lacks Adequate Segregation of Duties Over Disbursements And Bank Reconciliations

A lack of segregation of duties exists over jail commissary disbursements and bank reconciliations. The commissary bookkeeper may prepare checks for disbursements, sign checks, as well as perform the monthly bank reconciliations. The Jailer may also prepare and sign disbursements. Checks are typically signed by the person preparing them. To adequately protect assets from misappropriation and/or inaccurate financial reporting, duties involving disbursement preparation, and reconciliations should be separated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. We recommend the Jailer separate duties of disbursement preparation, check signing, and performance of the bank reconciliation. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided by the Jailer or his designee.

Any compensating controls performed should be documented. The following are examples of other controls the Jailer could implement:

- Dual signatures could be required for disbursements. The check preparer should not be a co-signer for disbursements.
- The Jailer, or his designee, could complete bank reconciliations or review the bookkeeper's reconciliation for accuracy. This could be documented by initialing the bank reconciliation.

Former County Judge/Executive's Response: The jailer will work to resolve these issues.

Former Jailer's Response: Due to limited budget, the detention center cannot hire just a treasurer for the Jail. Jail Administration has many titles and duties because of this limited budget. Jailer will begin to review reconciliations, and the Jail will implement dual signatures.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2013-05 The Treasurer Should Ensure The Schedule Of Expenditures Of Federal Awards Is Complete And Accurate

Federal Program: CFDA 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – Cumberland Hope Community Project
Pass-Through Entity: Kentucky Department for Local Government
Award Number: 05-024
Compliance Requirements: Reporting
Type of Finding: Material Weakness/Noncompliance
Amount of Questioned Costs: \$0

Federal Program: CFDA 20.106 – Airport Improvement Program
Pass-Through Entity: Kentucky Transportation Cabinet
Award Number: Not Available
Compliance Requirements: Reporting
Type of Finding: Material Weakness/Noncompliance
Amount of Questioned Costs: \$0

See comment 2013-04 above.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.

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

HARLAN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2013**

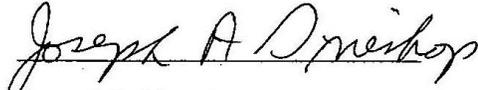
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

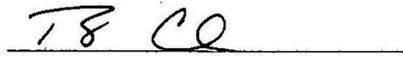
HARLAN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2013

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



County Judge/Executive



County Treasurer

