

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

**For The Fiscal Year Ended
June 30, 2014**



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

AUDIT EXAMINATION OF THE HARDIN COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Hardin County Fiscal Court for fiscal year ended June 30, 2014.

We have issued unmodified opinions, based on our audit and the reports of other auditors, on the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information financial statements of Hardin County, Kentucky.

In accordance with OMB Circular A-133, we have issued an unmodified opinion on the compliance requirements that are applicable to Hardin County's major federal program: Community Development Block Grant/State's Program (CFDA #14.228).

Financial Condition:

The fiscal court had total net position of \$247,923,345 as of June 30, 2014. The fiscal court had unrestricted net position of \$20,220,048 in its governmental activities as of June 30, 2014, with total net position of \$88,265,835. In its business-type activities, total net cash and cash equivalents were \$9,800,762 with total net position of \$159,657,510. The fiscal court's discretely presented component unit had net position of \$350,606 as of June 30, 2014. The discretely presented component unit had net cash, cash equivalents, and investments of \$515,354. The fiscal court had total debt principal as of June 30, 2014 of \$72,017,378 with \$2,876,647 due within the next year.

Report Comments:

- 2014-001 The Hardin County Fiscal Court Did Not Comply With State Law When Making Purchases
- 2014-002 The Hardin County Fiscal Court Did Not Have Adequate Controls Over Offsite Billing Service
- 2014-003 Hardin County Fiscal Court Should Improve Controls Over Payroll
- 2014-004 The Jail Commissary Lacks Adequate Segregation of Duties Over Receipts and Expenditures

Deposits:

The fiscal court and blended component units' deposits were insured and collateralized by bank securities or bonds. However, the Hardin County Planning and Development Commission, a discretely presented component unit of the Hardin County Fiscal Court, deposits as of June 30, 2014, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$27,068

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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 Harry L. Berry, Hardin County Judge/Executive
Members of the Hardin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Hardin County, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Hardin County, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Hardin Memorial Hospital, which represent 92 percent, 94 percent, and 97 percent, respectively, of the assets, net position, and revenues of the business-type opinion unit and the proprietary funds. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Hardin Memorial Hospital, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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.



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Auditor's Responsibility (Continued)

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 financial statement presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Hardin County, Kentucky, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-14 and 79-83 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hardin County, Kentucky's, basic financial statements. The combining fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the People of Kentucky
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Other Matters (Continued)

Other Information (Continued)

The combining fund financial statements and schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2015 on our consideration of Hardin 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Hardin County, Kentucky's internal control over financial reporting and compliance.

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

- 2014-001 The Hardin County Fiscal Court Did Not Comply With State Law When Making Purchases
- 2014-002 The Hardin County Fiscal Court Did Not Have Adequate Controls Over Offsite Billing Service
- 2014-003 Hardin County Fiscal Court Should Improve Controls Over Payroll
- 2014-004 The Jail Commissary Lacks Adequate Segregation of Duties Over Receipts and Expenditures

Respectfully submitted,



Adam H. Edelen
 Auditor of Public Accounts

June 3, 2015

HARDIN COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Harry L. Berry	County Judge/Executive
Roy Easter	Magistrate
Doug Goodman	Magistrate
Lisa Williams	Magistrate
Fred Clem, Jr.	Magistrate
Bill Wiseman	Magistrate
E.G. Thompson	Magistrate
Dwight Morgan	Magistrate
Garry King	Magistrate

Other Elected Officials:

Jennifer Oldham	County Attorney
Danny Allen	Jailer
Kenny Tabb	County Clerk
Loretta Crady	Circuit Court Clerk
Charles Williams	Sheriff
Danny Hutcherson	Property Valuation Administrator
William Lee	Coroner

Appointed Personnel:

Lisa Pearman	County Treasurer
James E. Roberts	Deputy Judge/Executive

Hardin County
Management's Discussion and Analysis
June 30, 2014

Regarding the financial management of Hardin County, Kentucky, we offer readers of these government-wide financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2014. This discussion and analysis is designed to assist the reader in focusing and identifying significant financial issues and highlighting any significant changes in our financial position. We encourage readers to consider the information presented here in conjunction with the government-wide financial statements as a whole.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at June 30, 2014, by \$248 million. This amount includes \$150.5 million related to Hardin Memorial Hospital. Of this amount, \$71.7 million may be used to meet the County's ongoing obligations to its citizens and creditors; \$20.2 million is related to Hardin County Government and \$51.4 million is related to Hardin Memorial Hospital.
- The County's total net position decreased by \$8.1 million.
- At June 30, 2014, the County's governmental funds reported combined ending fund balances of \$23.1 million. Of this amount, \$8.8 million was available for spending at the government's discretion.
- At June 30, 2014, fund balance for the General Fund was \$9.67 million, which is approximately 53% of total General Fund annual expenditures and transfers out.
- The County's total long-term obligations at June 30, 2014, were \$80.9 million. Obligations related to Hardin County Government were \$24 million comprised of \$5 million for landfill closure and postclosure and \$19 million for debt obligations. Also, obligations related to the Glendale industrial property was \$10.6 million and Hardin Memorial Hospital was \$46.3 million.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basis of accounting. The County presents its financial statements in accordance with Generally Accepted Accounting Principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. The County records transactions in governmental funds under the modified accrual basis and in business-type funds under the accrual basis.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

Discretely presented component units, which are other governmental units over which the County can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column of the government-wide financial statements. The focus of the statements is clearly on the primary government and the presentation allows the user to address the relative relationship with the component units. The County's discretely presented component unit issues separate audited financial statements which are available from the County Treasurer.

**Hardin County
Management's Discussion and Analysis
June 30, 2015
(Continued)**

FINANCIAL HIGHLIGHTS (Continued)

Government-wide financial statements (Continued). The statement of net position presents information on all of the County's assets, liabilities and deferred outflows, with the difference between reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the County that are principally supported by taxes, user charges and intergovernmental revenues (governmental activities) and business-type activities which rely on charges to users to support activities. The governmental activities of the County include general government, protection to persons and property, general health and sanitation, social services and recreation and culture. The business-type activities of the County include solid waste operations, Hardin Memorial Hospital (a blended component unit), and the jail canteen fund. The County has one agency fund which is an inmate account fund at the Hardin County Detention Center. Capital assets and related debt are also supported by the revenue sources mentioned above.

The government-wide financial statements can be found on pages 16 - 20 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental, proprietary and fiduciary. The proprietary funds are the Solid Waste Fund, Hardin Memorial Hospital (a blended component unit), and the Jail Canteen Fund and an internal service fund for employee health and dental insurance. The County has one agency fund which is an inmate account fund at the Hardin County Detention Center. All other activities of the County are included in the governmental funds.

The basic fund financial statements can be found on pages 21 - 39 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41 – 77 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities and deferred outflows by \$247.9 million as of June 30, 2014.

Hardin County
Management's Discussion and Analysis
June 30, 2015
(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The largest portion of the County's net position reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, furniture, equipment and books, and construction in progress), less any related debt used to acquire those assets that is outstanding. The County uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The largest portion of the County's net position reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, furniture, equipment and books, and construction in progress), less any related debt used to acquire those assets that is outstanding. The County uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The County's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Table 1)
Summary of Net Position
as of June 30, 2014 and 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 26,128,441	\$ 18,152,592	\$ 51,226,406	\$ 93,634,160	\$ 77,354,847	\$ 111,786,752
Capital assets	89,422,295	86,121,668	197,537,411	117,084,342	286,959,706	203,206,010
Total Assets	115,550,736	104,274,260	248,763,817	210,718,502	364,314,553	314,992,762
Long-term liabilities	24,675,152	13,808,070	56,298,186	16,698,342	80,973,338	30,506,412
Other liabilities	2,609,749	1,570,279	32,729,240	26,831,956	35,338,989	28,402,235
Total Liabilities	27,284,901	15,378,349	89,027,426	43,530,298	116,312,327	58,908,647
Deferred Outflows of Resources		-	78,881	-	78,881	-
Net Position:						
Net investment in capital assets	64,180,567	72,053,882	102,300,666	104,450,502	166,481,233	176,504,384
Restricted	3,865,220	4,311,925	5,827,307	2,950,520	9,692,527	7,262,445
Unrestricted	20,220,048	12,530,104	51,529,537	59,787,182	71,749,585	72,317,286
Total Net Position	\$ 88,265,835	\$ 88,895,911	\$ 159,657,510	\$ 167,188,204	\$ 247,923,345	\$ 256,084,115

Hardin County
Management's Discussion and Analysis
June 30, 2015
(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental activity unrestricted net position, the portion of net position used to finance day-to-day governmental operations (without constraints established by debt covenants, enabling legislation or other legal requirements), comprise 22.9% of total governmental net position. Restricted net position, those restricted mainly for special purposes, comprise 4.4% of total governmental net position. Net investment in capital assets comprises 72.7% of total governmental net position.

Business-type activity unrestricted net position, the portion of net position used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), comprise 32.3% of total business-type net position. Restricted net position, those restricted mainly for capital projects and debt service comprise 3.7% of total business-type net position. Net investment in business-type capital assets comprises 64.1% of total business-type net position.

Governmental Activities

General government comprises 7.3%, protection to persons and property comprises 52.3%, general health and sanitation comprises 6.3%, social services comprises 2.2%, recreation and culture comprises 3.6%, and roads comprises 18.9%, capital projects 8.9% of governmental program expenses for a total of 99.5% of general government expenses. The remaining expense for interest accounts for the remaining .5% of total governmental activities expense.

Hardin County
Management's Discussion and Analysis
June 30, 2015
(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental Activities (Continued)

(Table 2)
Changes in Net Position
Years Ended June 30, 2014 and 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
REVENUES:						
Program revenues:						
Charges for services	\$ 8,947,613	\$ 10,675,190	\$ 240,678,547	\$ 232,052,850	\$ 249,626,160	\$ 242,728,040
Operating grants and contributions	2,412,844	4,545,765	16,221	-	2,429,065	4,545,765
Capital grants and contributions	6,165,441	4,787,695		115,662	6,165,441	4,903,357
General revenues:						
Property taxes	5,978,116	5,860,262		-	5,978,116	5,860,262
Motor vehicle tax	713,310	681,610		-	713,310	681,610
Other taxes	965,847	1,128,415		171,380	965,847	1,299,795
Excess fees	980,283	1,058,223		-	980,283	1,058,223
Interest and investment earnings	142,052	100,578	574,092	353,665	716,144	454,243
Donations		73,140		-	-	73,140
Noncapital contributions		-	106,883	91,921	106,883	91,921
Miscellaneous	738,921	626,369			738,921	626,369
Total revenues	27,044,427	29,537,247	241,375,743	232,785,478	268,420,170	262,322,725
EXPENSES:						
Program Activities						
Primary Government:						
General government	1,974,309	11,126,284	-	-	1,974,309	11,126,284
Protection to persons and property	14,307,656	11,613,810	-	-	14,307,656	11,613,810
General health and sanitation	1,714,359	1,408,366	-	-	1,714,359	1,408,366
Social Services	605,928	155,828	-	-	605,928	155,828
Recreation and culture	976,317	807,767	-	-	976,317	807,767
Roads	5,168,088	4,707,288	-	-	5,168,088	4,707,288
Debt Service	207,648	85,491	-	-	207,648	85,491
Capital Projects	2,428,548				2,428,548	-
Business-type Activities:						
Solid Waste		-	7,385,683	7,408,862	7,385,683	7,408,862
Hardin Memorial Hospital		-	241,176,160	230,012,060	241,176,160	230,012,060
Jail Canteen		-	651,835	614,658	651,835	614,658
Total expenses	27,382,853	29,904,834	249,213,678	238,035,580	276,596,531	267,940,414
Change in net position before transfers	(338,426)	(367,587)	(7,837,935)	(5,250,102)	(8,176,361)	(5,617,689)
Transfers	(307,000)	(325,510)	307,000	325,510	-	-
Change in net position	\$ (645,426)	\$ (693,097)	\$ (7,530,935)	\$ (4,924,592)	\$ (8,176,361)	\$ (5,617,689)

Hardin County
Management's Discussion and Analysis
June 30, 2015
(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental Activities (Continued)

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. The net cost shows the financial burden/benefit that was placed/received on/by the County's taxpayers by each of these functions.

(Table 3)

	Governmental Activities			
	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
General government	\$ 1,974,309	\$ 11,126,284	\$ (1,532,062)	\$ (5,722,569)
Protection to persons and property	14,307,656	11,613,810	(4,186,084)	(1,126,547)
General health and sanitation	1,714,359	1,408,366	1,080,414	(1,364,182)
Social Services	605,928	155,828	(111,928)	(42,353)
Recreation and culture	976,317	807,767	(877,376)	(713,032)
Roads	5,168,088	4,707,288	(1,593,723)	(845,735)
Debt Service	207,648	85,491	(207,648)	(81,766)
Capital Projects	2,428,548		(2,428,548)	
Total expenses	\$ 27,382,853	\$ 29,904,834	\$ (9,856,955)	\$ (9,896,184)

Business-Type Activities

The business-type activities include the Solid Waste, Hardin Memorial Hospital and Jail Canteen Fund operations. These activities had total revenues of \$240.7 million and expenses of \$249.2 million for fiscal year 2014. Of the revenues, \$240.68 million was charges for services, \$16 thousand was operating grants and contributions, \$574 thousand was investment earnings and \$107 thousand was noncapital contributions. Transfers were made from the governmental activities to the business-type activities to the in the net amount of \$307 thousand. The County will continue to monitor the charges and costs of these activities and adjust them as appropriate.

**Hardin County
Management's Discussion and Analysis
June 30, 2015
(Continued)**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Business-Type Activities (Continued)

State and federal laws and regulations require Hardin County to place a final cover on its Municipal Solid Waste Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste. Total landfill closure and postclosure costs at June 30, 2014, are estimated at \$7,388,797 and \$1,454,585 based on landfill capacity used to date. The current portion of estimated costs totals \$5,005,799. Actual cost may be higher due to inflation, changes in technology, or changes in applicable laws or regulations. Estimates are adjusted for inflation. The projected date of closure for the current permitted space is August 2036. No cost related to closure or postclosure care has been incurred to date. In December 2000, the County began contributing \$62,600 per quarter to a landfill escrow account to be used at closure. The quarterly amount changed to \$8,750 per quarter in September 2009. The balance of the account at June 30, 2014 was \$2,818,942. This is the amount reflected as restricted net position in the accompanying financial statements. As of January 4, 2014, approximately 57% of the landfill airspace had been used. The estimated remaining landfill life is 21.6 years as currently permitted.

The County's Funds

Information about the County's major funds starts on page 22. All governmental funds had total revenues and other financing sources of \$42.8 million and expenditures and other financing uses of \$36 million. The County has four major governmental funds: 1) General Fund; 2) Road Fund; 3) Jail Fund; and 4) Capital Improvement Fund.

The General Fund is the chief operating fund of the County. At June 30, 2014, unassigned fund balance of the General Fund was \$8.8 million. The fund balance of the County's General Fund decreased by \$1.9 million during the fiscal year.

The Road Fund is the fund related to County road and bridge construction and maintenance. The Road Fund had \$890 thousand in fund balance at June 30, 2014. The fund balance of the County's Road Fund increased by \$13 thousand during the fiscal year. Expenditures for road projects were \$3.1 million.

The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance at June 30, 2014, of \$261 thousand. That is an increase in fund balance of \$65 thousand over the previous fiscal year. The Jail Fund received \$355 thousand of charges for services, primarily from charges to other entities for housing prisoners. The General Fund was required to contribute \$3.5 million to support jail operations.

The Capital Improvement Fund is used for new capital projects. The Capital Improvement Fund had a fund balance as June 30, 2014, of \$8.6 million.

General Fund-Budget Highlights

The County's budget is prepared according to Kentucky law. The most significant budgeted fund is the General Fund. For the General Fund, revenues were budgeted at \$17.7 million with actual amounts of \$15.4 million. Budgeted expenditures of \$17.2 million compare with actual expenditures of \$14.2 million.

Hardin County
Management's Discussion and Analysis
June 30, 2015
(Continued)

Capital Assets and Debt Administration

Capital Assets. At the end of fiscal year 2014 and 2013, the County had \$212.8 and \$203.2 million invested in a variety of capital assets, as reflected in the following table, and \$89.4 and \$86.1 million in governmental activities. Major capital asset additions during the fiscal year included additions to vehicles, roads accepted into the system and equipment. Additional information on the County's capital assets can be found in Note 6 to the financial statements.

(Table 4)
Capital Assets at June 30, 2014 and 2013
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 19,425,088	\$ 19,245,203	\$ 11,928,437	\$ 11,826,028	\$ 31,353,525	\$ 31,071,231
Land improvements		-	1,990,231	2,284,747	1,990,231	2,284,747
Buildings	16,149,814	15,192,346	46,100,784	47,613,880	62,250,598	62,806,226
Landfill		-	14,831,837	15,799,947	14,831,837	15,799,947
Infrastructure	45,388,842	46,843,298		-	45,388,842	46,843,298
Equipment, furniture and books	2,361,396	2,596,934		-	2,361,396	2,596,934
Equipment		-	36,965,005	38,084,623	36,965,005	38,084,623
Vehicles	2,948,797	1,938,341	69,553	65,902	3,018,350	2,004,243
Total	86,273,937	85,816,122	111,885,847	115,675,127	198,159,784	201,491,249
Construction in progress	3,148,358	305,546	11,447,336	1,409,210	14,595,694	1,714,756
Total	\$ 89,422,295	\$ 86,121,668	\$ 123,333,183	\$ 117,084,337	\$ 212,755,478	\$ 203,206,005

The following reconciliation summarizes the change in Capital Assets for the years ended June 30, 2014 and 2013:

(Table 5)
Change in Capital Assets
Years Ended June 30, 2014 and 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Beginning balance	\$ 86,121,668	\$ 87,965,432	\$ 117,084,338	\$ 112,727,703	\$ 203,206,006	\$ 200,693,135
Additions	7,046,521	2,462,498	20,614,446	22,139,602	27,660,967	24,602,100
Retirements/Transfers	(152,797)	(441,347)	(1,516,986)	(4,815,659)	(1,669,783)	(5,257,006)
Depreciation	(3,593,097)	(3,864,915)	(12,848,615)	(12,967,308)	(16,441,712)	(16,832,223)
Ending balance	\$ 89,422,295	\$ 86,121,668	\$ 123,333,183	\$ 117,084,338	\$ 212,755,478	\$ 203,206,006

Hardin County
Management's Discussion and Analysis
June 30, 2015
(Continued)

Capital Assets and Debt Administration (Continued)

At June 30, 2014 and 2013, the County had \$71.9 and \$21.8 million in bonds, notes and financing obligations outstanding (net of unamortized discount and deferred amount on refunding). A total of \$2.9 million is due within one year. Additional information on the County's long-term liabilities can be found in Note 7 to the financial statements.

(Table 6)
Long-term Obligations
as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Governmental Activities:		
Bonds	\$ 14,152,767	\$ 3,060,000
Add: unamortized premium	106,498	-
Less: unamortized bond discount	(3,875)	(41,049)
Financing obligations	<u>10,906,660</u>	<u>11,052,235</u>
Sub-total	<u>25,162,050</u>	<u>14,071,186</u>
Business-type Activities:		
Solid Waste Fund	6,440,500	7,852,500
Hardin Memorial Hospital	40,247,371	-
Add: Unamortized Premium	169,666	
Less: unamortized bond discount	(2,209)	(37,062)
Less: deferred amount on refunding		<u>(118,442)</u>
Sub-total	<u>46,855,328</u>	<u>7,696,996</u>
Total	<u>\$ 72,017,378</u>	<u>\$21,768,182</u>

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2015 fiscal year budget:

- The 2015 fiscal year adopted budget continued services at previous levels with the exception of completed projects or projects nearing completion early in the fiscal year.
- Ambulance service revenue is expected to increase by \$15 thousand per month during fiscal year 2015 due to a change in our billing agency and their processes.
- Fiscal Court will continue to monitor the landfill tonnage shortfall. It is anticipated tonnage will increase as the economy continues to improve and fuel costs decline.
- Program cuts or inadequate reimbursements at the State or Federal level, particularly relating to the cost of housing prisoners, continue to have a negative impact on future funding for County programs. The County may decide to alter the operations or funding of County operations impacted by State funding shortfalls for detention center operations.
- The acceptance of a new animal control facility donated to the county from a local non-profit named "Pets Are Worth Saving" (PAWS) will result in both increased revenue and equal expense due to increased volume available at the facility. Fiscal year 2015 will be the first full year of operating the new facility.

**Hardin County
Management's Discussion and Analysis
June 30, 2015
(Continued)**

Other matters. (Continued)

- Construction of a \$13,167,000 new government building that began in FY 2014 will be completed in FY 2015. Funding for constructing the facility is derived from the bonding of \$11,000,000 and the balance paid from existing county trust funds and reserves. Annual debt service will be paid from existing annual revenue streams as older debt issuances are reduced or extinguished in subsequent years.
- Emergency Medical Services (EMS) will purchased six (6) new ambulances in FY 2014 thru a five (5) year debt obligation anticipated at a total cost of \$1,000,000. Payments on this debt continue into FY 2015 from operational EMS funds derived from decreased maintenance costs resulting from the retirement of older fleet vehicles.
- Road Department expenditures on the county road maintenance is budgeted to remain stable during FY 2015. There is concern of possible reductions in state funding for county road maintenance as fuel prices decrease. Decreases in fuel prices may result in decreases in tax revenue generated by the state's motor fuels tax. Reduced funding from the motor fuels tax will adversely impact county road maintenance efforts.

Requests For Information

This financial report is designed to provide a general overview of Hardin County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Hardin County Treasurer, P.O. Box 568, Elizabethtown, Kentucky 42702-0568, (270) 765-4491.

**HARDIN COUNTY
STATEMENT OF NET POSITION**

June 30, 2014

**HARDIN COUNTY
STATEMENT OF NET POSITION**

June 30, 2014

	Primary Government			Component Unit Hardin County Planning and Development Commission
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 18,624,938	\$ 9,800,762	\$ 28,425,700	\$ 379,643
Investments	3,546,862		3,546,862	135,711
Receivables	3,757,262	176,855	3,934,117	
Assets Whose Use is Limited-				
Required for Current Liabilities		2,214,120	2,214,120	
Patient Accounts Receivable, net of Estimated Uncollectibles ; \$14,257,581		30,172,237	30,172,237	
Inventory	199,379	5,578,092	5,777,471	
Prepaid Expenses and Other		3,284,340	3,284,340	
Total Current Assets	26,128,441	51,226,406	77,354,847	515,354
Noncurrent Assets:				
Assets whose use is limited-				
Noncurrent Portion		65,785,243	65,785,243	
Other Assets		8,418,985	8,418,985	
Capital Assets - Net of Accumulated Depreciation				
Construction In Progress	3,148,358	11,447,336	14,595,694	
Land	19,425,088	11,928,437	31,353,525	
Land Improvements		1,990,231	1,990,231	
Buildings and Improvements	16,149,814	46,100,784	62,250,598	
Landfill		14,831,837	14,831,837	
Equipment		36,965,005	36,965,005	
Equipment, Furniture, and Books	2,361,396		2,361,396	
Vehicles	2,948,797	69,553	3,018,350	13,884
Infrastructure	45,388,842		45,388,842	
Total Noncurrent Assets	89,422,295	197,537,411	286,959,706	13,884
Total Assets	115,550,736	248,763,817	364,314,553	529,238
LIABILITIES				
Current Liabilities:				
Accounts Payable	1,004,122	8,926,926	9,931,048	2,799
Accrued Liabilities	350,844	17,123,307	17,474,151	10,417
Accrued Taxes				7,727
Bonds Payable	965,000	1,160,000	2,125,000	
Developer Advances				53,239
Unearned Revenue				83,416
Financing Obligations Payable	149,625	302,950	452,575	
Current Installments of Long-term Debt		299,072	299,072	
Current Portion of Compensated Absences	60,480		60,480	21,034
Estimated Third-Party Pays or Settlements		3,972,471	3,972,471	
Accrued Interest	79,678	944,514	1,024,192	
Total Current Liabilities	2,609,749	32,729,240	35,338,989	178,632

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

HARDIN COUNTY
STATEMENT OF NET POSITION
June 30, 2014
(Continued)

	Primary Government			Component Unit Hardin County Planning and Development Commission
	Governmental Activities	Business-Type Activities	Totals	
Noncurrent Liabilities:				
Bonds Payable	\$ 13,290,390	\$ 4,657,791	\$ 17,948,181	\$
Financing Obligations Payable	10,757,035	317,550	11,074,585	
Long-term Debt Obligations		40,117,965	40,117,965	
Noncurrent Portion of Compensated Absences	627,727		627,727	
Other Noncurrent Liabilities		6,199,081	6,199,081	
Landfill Closure and Postclosure Payable		5,005,799	5,005,799	
Total Noncurrent Liabilities	<u>24,675,152</u>	<u>56,298,186</u>	<u>80,973,338</u>	
Total Liabilities	<u>27,284,901</u>	<u>89,027,426</u>	<u>116,312,327</u>	<u>178,632</u>
Deferred Inflows of Resources		78,881	78,881	157,762
NET POSITION				
Invested in Capital Assets, Net of Related Debt	64,180,567	102,300,666	166,481,233	13,884
Restricted For:				
Debt Service		2,848,891	2,848,891	
Permanent Funds-nonspendable	804,526		804,526	
Permanent Funds-spendable	2,694,018		2,694,018	
Inventory-nonspendable	199,379		199,379	
Library	167,297		167,297	
Landfill Closure and Postclosure Expendable for Employee Support		2,818,942	2,818,942	
Expendable for Hardin Memorial Hospital Foundation, Inc.		139,667	139,667	
Unrestricted	20,220,048	51,529,537	71,749,585	336,722
Total Net Position	<u>\$ 88,265,835</u>	<u>\$ 159,657,510</u>	<u>\$ 247,923,345</u>	<u>\$ 350,606</u>

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

**HARDIN COUNTY
STATEMENT OF ACTIVITIES**

For The Year Ended June 30, 2014

**HARDIN COUNTY
STATEMENT OF ACTIVITIES**

For The Year Ended June 30, 2014

Functions/Programs Reporting Entity	<u>Program Revenues Received</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 1,974,309	\$ 244,352	\$ 197,895	\$
Protection to Persons and Property	14,307,656	8,527,050	1,477,209	117,313
General Health and Sanitation	1,714,359	112,663	17,650	2,664,460
Social Services	605,928			494,000
Recreation and Culture	976,317	49,833	49,108	
Roads	5,168,088	13,715	670,982	2,889,668
Debt Service	207,648			
Capital Projects	2,428,548			
Total Governmental Activities	<u>27,382,853</u>	<u>8,947,613</u>	<u>2,412,844</u>	<u>6,165,441</u>
Business-type Activities:				
Solid Waste	7,385,683	7,064,598	16,221	
Hardin Memorial Hospital	241,176,160	232,866,676		
Jail Canteen	651,835	747,273		
Total Business-type Activities	<u>249,213,678</u>	<u>240,678,547</u>	<u>16,221</u>	
Total Primary Government	<u>\$ 276,596,531</u>	<u>\$ 249,626,160</u>	<u>\$ 2,429,065</u>	<u>\$ 6,165,441</u>
Component Units:				
Hardin County Planning and Development Commission	<u>\$ 475,083</u>	<u>\$ 316,713</u>	<u>\$ 275,000</u>	<u>\$</u>

General Revenues:

Taxes:

Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes

Excess Fees

Unrestricted Investment Earnings

Noncapital Contributions

Miscellaneous Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning (Restated)

Net Position - Ending

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

HARDIN COUNTY
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2014
(Continued)

Net (Expenses) Revenues and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Hardin County Planning and Development Commission
\$ (1,532,062)	\$	\$ (1,532,062)	\$
(4,186,084)		(4,186,084)	
1,080,414		1,080,414	
(111,928)		(111,928)	
(877,376)		(877,376)	
(1,593,723)		(1,593,723)	
(207,648)		(207,648)	
(2,428,548)		(2,428,548)	
(9,856,955)		(9,856,955)	
	(304,864)		
	(8,309,484)		
	95,438	95,438	
	(8,518,910)	95,438	
(9,856,955)	(8,518,910)	(18,375,865)	
			\$ 116,630
5,577,088		5,577,088	
401,028		401,028	
713,310		713,310	
965,847		965,847	
980,283		980,283	
142,052	574,092	716,144	523
	106,883	106,883	
738,921		738,921	1,348
(307,000)	307,000		
9,211,529	987,975	10,199,504	1,871
(645,426)	(7,530,935)	(8,176,361)	118,501
88,911,261	167,188,445	256,099,706	232,105
\$ 88,265,835	\$ 159,657,510	\$ 247,923,345	\$ 350,606

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

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**HARDIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2014

HARDIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Road Fund	Jail Fund	Capital Improvements Fund
ASSETS				
Cash and Cash Equivalents	\$ 8,036,053	\$ 236,630	\$ 54,312	\$ 10,168,883
Investments				
Receivables	1,073,041	497,514	539,043	10,739
Inventories		199,379		
Due From Other Funds	933,336			
Total Assets	<u>10,042,430</u>	<u>933,523</u>	<u>593,355</u>	<u>10,179,622</u>
LIABILITIES AND FUND BALANCES				
LIABILITES				
Accounts Payable	73,801	5,510	217,588	599,098
Due To Other Funds	98,045			933,336
Accrued Liabilities	198,130	37,753	114,961	
Total Liabilities	<u>369,976</u>	<u>43,263</u>	<u>332,549</u>	<u>1,532,434</u>
FUND BALANCES				
Nonspendable:				
Inventory		199,379		
Permanent Fund Principal				
Restricted For:				
Recreation and Culture				
Protection to Persons and Property	854,535		260,806	
Roads		690,881		
Capital Projects				8,647,188
Permanent Fund				
Assigned To:				
Protection to Persons and Property	10,000			
Unassigned	<u>8,807,919</u>			
Total Fund Balances	<u>9,672,454</u>	<u>890,260</u>	<u>260,806</u>	<u>8,647,188</u>
Total Liabilities and Fund Balances	<u>\$ 10,042,430</u>	<u>\$ 933,523</u>	<u>\$ 593,355</u>	<u>\$ 10,179,622</u>

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

HARDIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014
(Continued)

<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$ 127,119	\$ 18,622,997
3,546,862	3,546,862
	2,120,337
	199,379
	933,336
<u>3,673,981</u>	<u>25,422,911</u>
8,139	904,136
	1,031,381
	350,844
<u>8,139</u>	<u>2,286,361</u>
	199,379
804,526	804,526
167,297	167,297
	1,115,341
	690,881
1	8,647,189
2,694,018	2,694,018
	10,000
<u>3,665,842</u>	<u>8,807,919</u>
<u>3,665,842</u>	<u>23,136,550</u>
<u>\$ 3,673,981</u>	<u>\$ 25,422,911</u>

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

HARDIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014
(Continued)

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position:

Total Fund Balances	\$ 23,136,550
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	163,091,349
Accumulated Depreciation	(73,669,054)
Long-term Debt is Not Due and Payable in the Current Period and, therefore, is Not Reported in the Funds.	
Financing Obligations	(10,906,660)
Bonds	(14,255,390)
Compensated Absences	(688,207)
Accrued Interest	(79,678)
Certain Receivables Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds	
Ambulance Receivables	1,544,515
Excess Fees	92,410
Internal Service Funds Are Used by Management to Charge the Costs of Certain Activities Such as Insurance to Individual Funds. The Assets and Liabilities of the Employee Insurance Fund Are Included in Governmental Activities in the Statement of Net Position. Assets were \$99,986 and Liabilities were \$99,986 for a Net of \$0.	
	<hr/>
Net Position Of Governmental Activities	<u><u>\$ 88,265,835</u></u>

HARDIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For The Year Ended June 30, 2014

HARDIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

For The Year Ended June 30, 2014

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Capital Improvements Fund</u>
REVENUES				
Taxes	\$ 7,657,271	\$	\$	\$
Excess Fees	980,283			
Licenses and Permits	196,357	13,715		
Intergovernmental	736,071	3,331,762	4,015,504	
Charges for Services	5,290,765		355,004	
Miscellaneous	231,828	113,909	326,373	
Interest	39,697	7,902	1,822	13,559
Increase (decrease) in Fair Value of Investments				
Total Revenues	<u>15,132,272</u>	<u>3,467,288</u>	<u>4,698,703</u>	<u>13,559</u>
EXPENDITURES				
General Government	4,239,840	6,753		
Protection to Persons and Property	7,369,522		5,254,277	
General Health and Sanitation	680,098			
Social Services	111,928			
Recreation and Culture	3,761			
Roads		3,067,756		
Debt Service				136,745
Capital Projects	29,570		21,867	2,377,111
Administration	602,609	416,988	2,036,425	
Total Expenditures	<u>13,037,328</u>	<u>3,491,497</u>	<u>7,312,569</u>	<u>2,513,856</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>2,094,944</u>	<u>(24,209)</u>	<u>(2,613,866)</u>	<u>(2,500,297)</u>
Other Financing Sources (Uses)				
Bond Proceeds	1,000,000			11,055,000
Bond Premium				96,790
Bond Discount				(4,305)
Adjustment to Prior Surplus			3,434	
Transfers From Other Funds	228,662	37,373	3,478,800	
Transfers To Other Funds	(5,257,471)		(803,375)	
Total Other Financing Sources (Uses)	<u>(4,028,809)</u>	<u>37,373</u>	<u>2,678,859</u>	<u>11,147,485</u>
Net Change in Fund Balances	(1,933,865)	13,164	64,993	8,647,188
Fund Balances - Beginning	11,606,319	877,096	195,813	
Fund Balances - Ending	<u>\$ 9,672,454</u>	<u>\$ 890,260</u>	<u>\$ 260,806</u>	<u>\$ 8,647,188</u>

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

HARDIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For The Year Ended June 30, 2014
(Continued)

<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$	\$ 7,657,271
	980,283
	210,072
1,603,610	9,686,947
49,833	5,695,602
3,191	675,301
68,793	131,773
10,280	10,280
<u>1,735,707</u>	<u>25,047,529</u>
7,019	4,253,612
	12,623,799
1,003,763	1,683,861
494,000	605,928
939,334	943,095
	3,067,756
1,015,653	1,152,398
	2,428,548
	3,056,022
<u>3,459,769</u>	<u>29,815,019</u>
<u>(1,724,062)</u>	<u>(4,767,490)</u>
	12,055,000
	96,790
	(4,305)
	3,434
1,829,862	5,574,697
<u>(117,244)</u>	<u>(6,178,090)</u>
<u>1,712,618</u>	<u>11,547,526</u>
(11,444)	6,780,036
<u>3,677,286</u>	<u>16,356,514</u>
<u>\$ 3,665,842</u>	<u>\$ 23,136,550</u>

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

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HARDIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2014

**HARDIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For The Year Ended June 30, 2014

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ 6,780,036

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	5,049,623
Depreciation Expense	(3,593,097)
Capital Assets Purchased by Sheriff	107,313
Roads Received into System (Donated)	228,888
Donated Building- Animal Shelter	1,660,697
Assets disposed of, net book value	(152,797)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Bond and other debt	(12,055,000)
Financing Obligations Principal Payments	145,575
Bond Principal Payments	962,233
Net Bond Premium (Bond Discount) Received	(92,485)

Generally, Expenditures Recognized in this Fund Statement Are Limited to Only those that Use Current Resources, but Expenses Are Recognized in the Statement of Activities When they Are Incurred (129,850)

Revenues in the Statement of Activities that do not Provide Current Financial Resources Are not Reported Are not Reported as Revenues in the Funds 443,438

Change in Net Position of Governmental Activities \$ (645,426)

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HARDIN COUNTY
STATEMENT OF NET POSITION - PROPRIETARY FUND
June 30, 2014

HARDIN COUNTY
STATEMENT OF NET POSITION - PROPRIETARY FUND

June 30, 2014

	Business-Type Activities - Enterprise Funds			Totals	Governmental Activities Internal Service Fund
	Solid Waste Fund	Hardin Memorial Hospital	Jail Commissary Fund		
Assets					
Current Assets:					
Cash and Cash Equivalents	\$ 2,829,417	\$ 6,867,309	\$ 104,036	\$ 9,800,762	\$ 1,941
Receivables	138,302		38,553	176,855	
Assets Whose Use is Limited- Required for Current Liabilities		2,214,120		2,214,120	
Patient Accounts Receivable, net of Estimated Uncollectibles ; \$14,257,581		30,172,237		30,172,237	
Inventory		5,578,092		5,578,092	
Prepaid Expenses and Other Due From Other Funds		3,284,340		3,284,340	98,045
Total Current Assets	2,967,719	48,116,098	142,589	51,226,406	99,986
Noncurrent Assets:					
Assets whose use is limited- Noncurrent Portion		65,785,243		65,785,243	
Other Assets		8,418,985		8,418,985	
Capital Assets:					
Land	2,715,500	9,212,937		11,928,437	
Construction in Progress		11,447,336		11,447,336	
Landfill	28,758,173			28,758,173	
Land Improvements		6,025,908		6,025,908	
Machinery and Equipment	482,721			482,721	
Buildings and Improvements Equipment		91,405,541		91,405,541	
		189,604,409		189,604,409	
Vehicles	135,187		10,800	145,987	
Less Accumulated Depreciation	(14,354,926)	(202,108,843)	(1,560)	(216,465,329)	
Total Noncurrent Assets	17,736,655	179,791,516	9,240	197,537,411	
Total Assets	\$ 20,704,374	\$ 227,907,614	\$ 151,829	\$ 248,763,817	\$ 99,986

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

HARDIN COUNTY
STATEMENT OF NET POSITION - PROPRIETARY FUND
June 30, 2014
(Continued)

	Business-Type Activities - Enterprise Funds			Totals	Governmental Activities Internal Service Fund
	Solid Waste Fund	Hardin Memorial Hospital	Jail Commissary Fund		
Liabilities					
Current Liabilities:					
Accounts Payable	\$ 65,050	\$ 8,823,254	\$ 38,622	\$ 8,926,926	\$ 99,986
Accrued Liabilities-					
Primarily for Wages and Benefits	6,287	17,117,020		17,123,307	
Bonds Payable	1,160,000			1,160,000	
Financing Obligations Payable	302,950			302,950	
Current Installments of Long-term Debt		299,072		299,072	
Estimated Third-Party Pays or Settlements		3,972,471		3,972,471	
Accrued Interest	21,964	922,550		944,514	
Total Current Liabilities	<u>1,556,251</u>	<u>31,134,367</u>	<u>38,622</u>	<u>32,729,240</u>	<u>99,986</u>
Noncurrent Liabilities:					
Bonds Payable	4,657,791			4,657,791	
Financing Obligations Payable	317,550			317,550	
Long-term Obligations		40,117,965		40,117,965	
Other Noncurrent Liabilities		6,199,081		6,199,081	
Landfill Closure and Postclosure Payable	5,005,799			5,005,799	
Total Noncurrent Liabilities	<u>9,981,140</u>	<u>46,317,046</u>	<u></u>	<u>56,298,186</u>	<u></u>
Total Liabilities	<u>11,537,391</u>	<u>77,451,413</u>	<u>38,622</u>	<u>89,027,426</u>	<u>99,986</u>
Deferred Inflows of Resources	<u>78,881</u>			<u>78,881</u>	
Net Position					
Invested in Capital Assets, Net of Related Debt	6,213,684	96,077,742	9,240	102,300,666	
Restricted for:					
Debt Service	7,029	2,841,862		2,848,891	
Landfill Closure and Postclosure Expendable for Employee Support	2,818,942			2,818,942	
Expendable for Hardin Memorial Hospital Foundation, Inc.		19,807		19,807	
Hospital Foundation, Inc.		139,667		139,667	
Unrestricted	48,447	51,377,123	103,967	51,529,537	
Total Net Position	<u>\$ 9,088,102</u>	<u>\$ 150,456,201</u>	<u>\$ 113,207</u>	<u>\$ 159,657,510</u>	<u>\$ 0</u>

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

HARDIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
For The Year Ended June 30, 2014

HARDIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND

For The Year Ended June 30, 2014

	Business-Type Activities -			Totals	Governmental
	Enterprise Funds				
	Solid	Hardin	Jail		Internal Service
	Waste	Memorial	Commissary		Fund
	Fund	Hospital	Fund		Fund
Operating Revenues					
Licenses and Permits	\$ 163,426	\$	\$	\$ 163,426	\$
Charges for Services	6,688,576			6,688,576	1,139,613
Stop Loss					314,902
Miscellaneous	228,817			228,817	
Net Patient Service Revenue		228,537,302		228,537,302	
Other Operating Revenue		4,329,374		4,329,374	
Commissary Receipts			747,273	747,273	
Total Operating Revenues	<u>7,080,819</u>	<u>232,866,676</u>	<u>747,273</u>	<u>240,694,768</u>	<u>1,454,515</u>
Operating Expenses					
General Government	96,960			96,960	
General Health and Sanitation	5,937,408			5,937,408	
Educational and Recreational					
Salaries, Wages, and Benefits		130,636,715		130,636,715	
Supplies		45,090,789		45,090,789	
Depreciation and Amortization	1,005,059	12,065,367	1,560	13,071,986	
Professional Services		32,036,844		32,036,844	
Administrative and Other		16,817,181		16,817,181	
Provider Tax		3,261,879		3,261,879	
Loss (Gain) on Sale of Capital Assets		(129,913)		(129,913)	
Cost of Sales			650,275	650,275	
Insurance Claims and Expenses					1,750,908
Total Operating Expenses	<u>7,039,427</u>	<u>239,778,862</u>	<u>651,835</u>	<u>247,470,124</u>	<u>1,750,908</u>
Operating Income (Loss)	<u>41,392</u>	<u>(6,912,186)</u>	<u>95,438</u>	<u>(6,775,356)</u>	<u>(296,393)</u>
Nonoperating Revenues (Expenses)					
Interest Income	25,019	549,045	28	574,092	
Interest Expense	(346,256)	(165,584)		(511,840)	
Bond Issuance Costs		(1,231,714)		(1,231,714)	
Noncapital Contributions		106,883		106,883	
Total Nonoperating Revenues					
(Expenses)	<u>(321,237)</u>	<u>(741,370)</u>	<u>28</u>	<u>(1,062,579)</u>	
Net Income(Loss) Before Transfers and Contributions					
	(279,845)	(7,653,556)	95,466	(7,837,935)	(296,393)
Transfers From Other Funds	460,000			460,000	296,393
Transfers To Other Funds	(153,000)			(153,000)	
Change In Net Position	27,155	(7,653,556)	95,466	(7,530,935)	
Total Net Position - Beginning (Restated)	9,060,947	158,109,757	17,741	167,188,445	
Total Net Position - Ending	<u>\$ 9,088,102</u>	<u>\$ 150,456,201</u>	<u>\$ 113,207</u>	<u>\$ 159,657,510</u>	<u>\$ 0</u>

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

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HARDIN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For The Year Ended June 30, 2014

HARDIN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For The Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds			Totals	Governmental Activities Internal Service Fund
	Solid Waste Fund	Hardin Memorial Hospital	Jail Commissary Fund		
Cash Flows From Operating Activities					
Cash Receipts From Customers and Users	\$ 6,706,011	\$	\$ 708,720	\$ 7,414,731	\$ 1,094,749
Cash Received from Patient Services Revenues-Net		227,918,942		227,918,942	
Cash Received for Other Receipts-Net	392,243	1,067,495		1,459,738	314,902
Cash Payments to Vendors and Contractors	(5,647,321)	(92,873,848)		(98,521,169)	
Cash Payments to Employees	(139,857)	(130,888,662)		(131,028,519)	
Cash Payments for Insurance Claims and Expenses					(1,706,666)
Cash Payments for Operating Expenditures			(637,681)	(637,681)	
Net Cash Provided (Used) By Operating Activities	<u>1,311,076</u>	<u>5,223,927</u>	<u>71,039</u>	<u>6,606,042</u>	<u>(297,015)</u>
Cash Flows From Noncapital Financing Activities					
Other		106,883		106,883	
Transfers from Other Funds	460,000			460,000	296,393
Transfers to Other Funds	(153,000)			(153,000)	
Net Cash Provided (Used) By Noncapital Financing Activities	<u>307,000</u>	<u>106,883</u>	<u>0</u>	<u>413,883</u>	<u>296,393</u>
Cash Flows From Capital and Related Financing Activities					
Principal Payments on Long-term Obligations	(1,412,000)	(249,227)		(1,661,227)	
Proceeds from Issuance of Bonds		39,570,554		39,570,554	
Bond Issuance Costs	(34,117)	(1,231,714)		(1,265,831)	
Interest Payments on Long-term Obligations	(236,758)	(824,145)		(1,060,903)	
Purchases of Capital Assets		(14,230,466)	(10,800)	(14,241,266)	
Proceeds from Sale of Capital Assets		222,251		222,251	
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(1,682,875)</u>	<u>23,257,253</u>	<u>(10,800)</u>	<u>21,563,578</u>	
Cash Flows From Investing Activities					
Sales and Redemptions of Investments		30,469,382		30,469,382	
Purchases of Investments		(57,920,413)		(57,920,413)	
Interest Earned	25,019	664,363	28	689,410	
Net Cash Provided (Used) By Investing Activities	<u>25,019</u>	<u>(26,786,668)</u>	<u>28</u>	<u>(26,761,621)</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	(39,780)	1,801,395	60,267	1,821,882	(622)
Cash and Cash Equivalents - July 1	<u>2,869,197</u>	<u>5,065,914</u>	<u>43,769</u>	<u>7,978,880</u>	<u>2,563</u>
Cash and Cash Equivalents - June 30	<u>\$ 2,829,417</u>	<u>\$ 6,867,309</u>	<u>\$ 104,036</u>	<u>\$ 9,800,762</u>	<u>\$ 1,941</u>

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

HARDIN COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND For The Year Ended June 30, 2014
(Continued)

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Business-Type Activities - Enterprise Funds			Totals	Governmental Activities Internal Service Fund
	Solid Waste Fund	Hardin Memorial Hospital	Jail Commissary Fund		
Operating Income (Loss)	\$ 41,392	\$ (6,912,186)	\$ 95,438	\$ (6,775,356)	\$ (296,393)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities					
Depreciation Expense	1,005,059	12,065,367	1,560	13,071,986	
Provision for Uncollectible Accounts		25,439,379		25,439,379	
(Gain) Loss on Sale of Capital Assets		(129,913)		(129,913)	
Changes in Operating Assets and Liabilities:					
Patient Accounts Receivable		(28,595,702)		(28,595,702)	
Accounts Receivable	17,437		(38,553)	(21,116)	
Due from Other Funds					(44,864)
Inventories		987,777		987,777	
Prepaid Expenses and Other Assets		(673,474)		(673,474)	
Accounts Payable and Other Liabilities	(885)	504,716	12,594	516,425	44,242
Accrued Liabilities	531			531	
Estimated Third-party Payer Settlements		2,537,963		2,537,963	
Landfill Closure and Postclosure	247,542			247,542	
Net Cash Provided (Used) By Operating Activities	\$ 1,311,076	\$ 5,223,927	\$ 71,039	\$ 6,606,042	\$ (297,015)

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

HARDIN COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS
June 30, 2014

HARDIN COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS -

June 30, 2014

	Agency Funds
	Jail Inmate Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 19,752
Total Assets	19,752
 Liabilities	
Amounts Held In Custody For Others	19,752
Total Liabilities	19,752
 Net Position	
Total Net Position	\$ 0

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

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TO THE FINANCIAL STATEMENTS**

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HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA.) (See part D for additional discussion on basis of presentation.)

B. Reporting Entity

The financial statements of Hardin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Hardin County Public Library

Based on KRS 173.310 the Library is not a legally separate entity from the Hardin County Fiscal Court. The Library cannot be sued in its own name without recourse to the Fiscal Court and does not have the right to buy, sell, lease, or mortgage property in its own name. This component unit is blended in the financial statements.

Hardin Memorial Hospital

The Hardin Memorial Hospital's combined financial statements include the operations of Hardin Memorial Hospital, Hardin Memorial Hospital Foundation, Inc. (Foundation), Carefirst Urgent Care Center, LLC (Carefirst), Hardin Professional Services, LLC (HPS), and Workwell, LLC (Workwell) (collectively, Hardin Memorial Hospital). The Hospital is operated as an unincorporated unit of the Hardin County Fiscal Court. The Hospital provides inpatient and outpatient services to the residents of Hardin County, Kentucky and the surrounding area. Pursuant to Internal Revenue Service Code Section 115, the Hospital is exempt from federal income taxes. The Foundation was organized to support, enhance and expand the activities of Hardin Memorial Hospital and the Foundation is under the common control of the same Board of Trustees, the Hardin County Fiscal Court. The Foundation, Carefirst, HPS, and Workwell are considered blended component units of Hardin Memorial Hospital and as such, the financial statements of these entities are presented with those of the Hospital using the blending method.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Hardin Memorial Hospital (Continued)

All material inter-organization balances and transaction have been eliminated, Hardin Memorial Hospital is separately audited and a copy of the independent auditor's report can be obtained from the Hospital's finance department, 913 North Dixie Avenue, Elizabethtown, Kentucky 42701.

Discretely Presented Component Units

The component units' column in the combined financial statements include the data of the following organizations. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize these organizations' separateness from the fiscal court's primary government.

Hardin County Planning and Development Commission

The Hardin County Planning and Development Commission (Planning Commission) is a Hardin County government agency that enforces regulations involving zoning, subdivision development, and local and state building and electrical codes in all areas of unincorporated Hardin County. The Planning Commission's board members are appointed by the County Judge Executive with the approval of the Hardin County Fiscal Court. The Fiscal Court is able to impose its will on the Planning Commission. Financial information for the Planning and Development Commission is presently discretely within Hardin County's financial statements. The Planning Commission is audit separately and a copy of the independent auditor's report can be obtained from the Commission, 14 Public Square, 3rd Floor, Elizabethtown, Kentucky 42701.

C. Hardin County Elected Officials

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

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

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

A significant feature of the government-wide Statement of Activities is the presentation of each program's net cost. GAAP requires the reporting of a program's net cost to indicate how self-sustaining the program is and to reveal the extent of reliance on other governmental units. Net cost is obtained by subtracting program expenses from program revenues. Program expenses are those costs attributable to a particular function including certain indirect costs. GAAP permits both direct and indirect program expenses to be presented together in an "Expenses" column. Therefore, indirect expenses are not specifically identified with individual functions and activities.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year in which they are levied. Grants and similar items are recognized as revenues once provider-imposed eligibility requirements have been met.

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.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

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

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

Capital Improvements Fund - The purpose of this fund is to account for the construction of the new government building from funds received from a bond issuance.

The primary government also has the following non-major funds: State Grant Fund, Federal Grant Fund, Library Fund, Debt Service Fund, Fife Fund, Pauline Walker and Powell Fund, and Pauline Walker, and Powell Duff Library Trust Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, State Grant Fund, Federal Fund, and Library Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Capital Projects Fund:

The Capital Improvements Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities and purchase of capital assets.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Fund:

The Debt Service Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Permanent Funds:

The Fife Fund, Pauline Walker and Powell Duff Fund, and the Pauline Walker and Powell Duff Library Trust Fund are presented as permanent funds. Permanent funds are to account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs.

Fife Fund – This fund was established by the will and codicils of H.B. Fife in 1955. The will imposed that the fund be held in perpetuity. This means the original \$270,000 principal should remain intact. The will created a trust for the following public purposes:

- 1) To aid in the construction and and/or maintenance of the public county roads and bridges of Hardin County.
- 2) To aid in the construction and/or maintenance of public airport.
- 3) To aid in the construction of a new courthouse or jail.

The trustee that administers the Fife Trust is a committee consisting of the following with each having one vote: Hardin County Judge Executive, Hardin County Treasurer, and the Hardin County Fiscal Court. The majority of the committee has the full authority and discretion to decide how the income of the trust is to be spent. The will contained no language, which would limit the discretion of this committee in the expenditure of the Fife Trust income. The only limitation on the committee's discretion is that which the law imposes on all trustees in that their decisions must not be arbitrary. The committee must give due consideration for requests for expenditures in each of the categories but it remains within the committee's sound discretion as to how the income of the trust is ultimately expended.

Pauline Walker and Powell Duff Fund - This fund was established by the will of Powell Duff in 1991. According to the will, this request "is given in memory of one who fought and wrought to improve the quality of life in southern Hardin County after she moved to Sonora in 1934." The trustee is the Hardin County Fiscal Court. The will imposed that the fund be held in perpetuity. This means the original \$459,526 principal should remain intact and the income may be spent annually as Fiscal Court sees fit.

Pauline Walker and Powell Duff Library Trust - This trust was created in 1986 for the benefit of the Hardin County Public Library, subject to the uses and purposes as follows:

- 1) The corpus (principal) of the trust is the sum of \$75,000.
- 2) The trustees of the trust are the County Judge/Executive, Library Board Chairperson, and the County Treasurer

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Pauline Walker and Powell Duff Fund - (Continued)

- 3) The trustees are directed to invest the corpus in safe investments producing a reasonable rate of interest income. The trustees are further directed that all income produced shall be used solely for the purchase of books for the Hardin County Public Library. At no time shall the trustees invade the corpus for any reason whatsoever.
- 4) The trustees, in the performance of their duties under this instrument, shall be bound by the appropriate statutory provisions of the Kentucky Revised Statutes, as well as the common law, and shall adhere to all standards and requirements set forth.

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting and the economic resources measurement focus. These funds account for operations that are primarily financed by user charges. The economic resources measurements focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in these funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Solid Waste Fund - This fund accounts for county landfill operations and garbage collections. The primary sources of revenue for this fund are from charges to customers for garbage collection and tipping fees.

Hardin Memorial Hospital - Hardin Memorial Hospital, a blended component unit of Hardin County, Kentucky, accounts for the activities of the Hardin Memorial Hospital. The Hospital provides inpatient and outpatient medical services to residents of Hardin County and the surrounding area. The Hospital defines operating activities, as reported on the Statement of Revenues, Expenses and Changes In Fund Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all the Hospital's revenues and expense are from exchange transactions. Certain revenues relied upon for operations, such as gifts and investment income, are recorded as non-operating revenues.

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 and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

Internal Service Fund - The County's Internal Service Fund is the employee insurance funds. This fund accounts for the costs of providing a self-insured health and dental insurance plan for the County's employees. Revenues include premiums and expenses include claims.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from inmates after incarceration

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period). The revenues susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, charges for services, interest income and intergovernmental revenues. All other Governmental revenues are recognized when received. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made. or when received in advance, considered unearned until expenditures are made.

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Property taxes levied to finance fiscal year 2014 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the County must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Presentation of Component Units

The financial statements present the following major discretely presented component units: Hardin County Planning and Development Commission.

This component unit is presented in a separate column in the combined financial statements. They are also reported on the Statement of Net Position and the Statement of Activities in a separate total column that is labeled as "Component Unit" to emphasize these organizations' separateness from the fiscal court's primary government.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. 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).

F. Assets Whose Use Is Limited and Investment Income for Hardin Memorial Hospital

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, assets whose is limited and include U.S. Treasury and agency obligations, money market mutual funds and corporate stocks, which are stated at fair value. Income from investments is reported as nonoperating investment income. Interest is earned on the guaranteed investment contracts at rates of 0.375 percent and 2.55 percent for the Project Fund Account and Reserve Fund Account, respectively, at June 30, 2014.

Assets whose use is limited are held in the Hospital's name by a custodial bank and include, (1) assets set aside by the Board for capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes and (2) assets held by trustees under indenture agreement. Amounts required to meet current liabilities have been classified as current assets in the statement of fund net position.

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at a time of acquisition and in nonnegotiable certificates of deposits are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value.

G. Net Patient Service Revenue

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, has agreement with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported report at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Net Patient Service (Continued)

The payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Primarily all inpatient and outpatient services rendered to Medicaid program beneficiaries are at prospectively determined rates. For certain outpatient services, the Hospital is reimbursed under a cost based methodology, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

Approximately 52 percent of net patient service revenue is from participation in the Medicare program and state-sponsored Medicaid programs for the years ended June 30, 2014. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

H. Charity Care

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital provided charity care to patients amounting to approximately \$15,480,000 (based on the Hospital's normal charges foregone) for the years ended June 30, 2014.

I. Interfund Transactions

Hardin County Fiscal Court has the following type of interfund transaction:

Interfund Transfers - Transfers presented in the fund financial statements represent the flow of assets (such as goods or cash) without equivalent flow of assets in return or requirement of repayment. The composition of the interfund transfers is presented in Note 5. Note that at the entity-wide level, the majority of interfund transfers have been eliminated. This is to avoid revenues and expenses from being reported more than once. Interfund transfers between governmental activities and business-type activities have not been eliminated.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Inventory

Inventory for Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, consist of expendable supplies held for consumption, the costs of which are recorded as an expense as they are used. Inventory for the Road Fund consists of pipe and salt used in operations.

All inventories are stated at the lower costs or market on a first-in, first-out basis.

In the fund financial statements, reported inventories in the Road Fund do not constitute “available spendable resources” even though they are a component of total assets.

K. 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 in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction on business-type activities is capitalized. The Fiscal Court’s capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Buildings and Building Improvements	\$ 30,000	10-50
Equipment, Furniture, and Books	\$ 5,000	3-15
Vehicles	\$ 5,000	3-15
Infrastructure	\$ 30,000	7-50

The following estimated useful lives are being used by the Hospital:

	Useful Life (Years)
Land Improvements	2-25
Building and Leasehold Improvements	5-40
Equipment	2-20

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowings specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Capital Assets (Continued)

Total Interest Expense Incurred on Borrowings for Project	\$ 1,746,695
Interest Income from Investment of Proceeds of Borrowings for Project	<u>(150,084)</u>
Net Interest Cost Capitalized	<u>\$ 1,596,611</u>
Interest Capitalized	\$ 1,596,611
Interest Charged to Expense	<u>165,584</u>
Total Interest Incurred	<u>\$ 1,762,195</u>

L. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize 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 expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

M. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually. At June 30, 2014, non-spendable fund balances were composed of \$199,379 related to inventory for the Road Fund and \$804,526 related to the corpus of the permanent funds.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

M. Fund Equity (Continued)

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Judge/Executive to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

N. 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 expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Financial does not require the Debt Service and the Jail Commissary Funds to be budgeted.

O. Estimates

The preparation of financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported revenues and expenses during the reporting period.

P. Provider Tax

Legislation enacted in 2006 by the Commonwealth of Kentucky established the current basis for calculating the health care provider tax on hospital services. Due to this legislation, the Hospital's provider tax rate calculation was changed during fiscal year 2007 to a fixed monthly payment based on fiscal year 2006 provider tax paid rather than a straight percent based on Hospital service revenues. The tax levied is for the purpose of providing funding for the Commonwealth of Kentucky Medicaid program.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA), provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In fiscal year 2014, the Hospital was in the third year under both the Medicare and Medicaid programs and has recorded revenue of approximately \$2,960,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net position.

R. Related Organizations and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Hardin County Fiscal Court: Hardin County Water District #1 and Hardin County Water District #2.

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following is considered a jointly governed organization of Hardin County: Hardin County Industrial Foundation.

S. Compensated Absences

Upon retirement from the County, an employee will receive from the County an amount of accumulated sick leave determined by the County Employees Retirement System and the value of accumulated vacation leave. Sick leave is not paid by Hardin Memorial Hospital. Compensated absences are generally paid through the General, Road, Jail, and Solid Waste Fund. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that is probable that the benefits will result in termination payments. The liability is based on the County's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated compensated absences payable" in the General Fund. There was no amount required to be recorded at June 30, 2014. The noncurrent portion of the liability is not reported.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

S. Compensated Absences (Continued)

Hardin County Planning and Development Commission, a discretely presented component unit of Hardin County Fiscal Court, records a liability for vacation and compensatory time based on hours earned. The balance at July 1, 2013, was \$23,033, decreases during the year were \$23,033 and increases were \$21,034, for a balance at June 30, 2014, of \$21,034

T. Goodwill

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, has chosen to amortize goodwill over a 40 year useful life and has recorded goodwill net of accumulated amortization on the statement of net position in other assets. Total goodwill (net of accumulated amortization), relating to the acquisitions of a diagnostic imaging center, surgical center, and a urgent care practice, as of June 30, 2014, was \$8,418,985.

U. Recently Issued and Adopted Accounting Principles

In March 2012, the GASB issued Statement 66, *Technical Corrections - 2012 - an Amendment of GASB Statements No. 10 and No. 62*. GASB 66 was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012. This statement was adopted during the fiscal year and there was no effect on the financial statements.

Note 2. Deposits and Investments

A. Deposits

The primary government and the Planning and Development Commission, a discretely presented component unit, 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. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 2. Deposits and Investments (Continued)

A. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2014, the primary government's deposits were covered by FDIC insurance or a properly executed collateral security agreement, however on June 30, 2014; the Planning and Development's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$27,068

B. Investments

As of June 30, 2014, the County had the following investments and maturities:

Type	Fair Value	Rating	Maturities			
			Less Than 1	1-5	6-10	More Than 10
Federal Home Loan Mortgage Corporation	\$ 87,366	Unrated	\$	\$	\$ 116	\$ 87,250
Tennessee Valley Power	453	AA+/AAA				453
Mutual Funds	1,028,632	Unrated	1,028,632			
U.S. Treasury Bond ETF	2,371,907	Unrated		2,371,907		
Total Investments with Maturities	3,488,358		<u>\$ 1,028,632</u>	<u>\$ 2,371,907</u>	<u>\$ 116</u>	<u>\$ 87,703</u>
Community Foundation	58,504	Unrated	N/A	N/A	N/A	N/A
Total Investments	<u>\$ 3,546,862</u>					

Hardin Memorial Hospital, blended component unit, had the following investments and maturities:

Type	Fair Value	Maturities	
		Less Than 1	1-10
U.S. Agencies Obligations	\$ 16,055,473	\$ 1,807,034	\$ 14,248,439
U.S. Treasury Obligations	19,916,916	5,040,713	14,876,203
Guaranteed Investment Contracts	30,907,491	28,121,671	2,785,820
Total Investments with Maturities	\$ 66,879,880	<u>\$ 34,969,418</u>	<u>\$ 31,910,462</u>
Corporate Stock (held by Foundation)	40,154		
Total Investments	<u>\$ 66,920,034</u>		

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the County's investing activities are under the custody of the fiscal court. Investing policies comply with the State Statutes and the County's investment policy. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

- Obligations of the United States and of its agencies and instrumentalities.
- Obligations of any corporation of the United States Government.
- Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by nationally recognized rating agency. 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 or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4)
- Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.
- Commercial paper rated in the highest category by a nationally recognized rating agency.
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency and shares of mutual funds, each of which shall have the following characteristics:
 - 1) The mutual funds shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
 - 2) The management company of the investment company shall have been in operation for at least five years.
 - 3) All of the securities in the mutual fund shall be eligible investments pursuant to this section.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The County policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the County's investment in single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The County does not have more than 5% of the County's investments invested in any single security.

Custodial Credit Risk is the risk that, in the event of failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's investments in securities are held by the counterparty's trust department in the County's name. The County does not record any investments at amortized costs. The investment in the external pool is not SEC-registered and is under the oversight of the Central Kentucky Community Foundation. The fair value of the position in the pool is the same as the value of pool shares.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 3. Disaggregation of Accounts of Accounts Receivable

Accounts receivable are amounts owed the fiscal court as of June 30, 2014. Those amounts for governmental funds are measurable and available are recorded in the *Statements of Revenues, Expenditures, and Changes in Fund Balances*, while all receivables are recorded for governmental activities and business-type activities in the *Statement of Net Position*. Receivables at June 30, 2014, for Hardin County's individual governmental major funds and nonmajor funds in the aggregate, including allowance for uncollectibles, with a reconciliation to government activities are as follows:

	General Fund	Road Fund	Jail Fund	Capital Improvements Fund	Total Governmental Funds	Accrual Additions	Total Governmental Activities
Receivables:							
Taxes-Current	\$ 372,673	\$	\$	\$	\$ 372,673	\$ 92,410	\$ 465,083
Taxes-Delinquent	23,150				23,150		23,150
Ambulance A/R	495,962				495,962	5,766,502	6,262,464
Other	181,256	497,514	539,043	10,739	1,228,552		1,228,552
Gross Receivables	1,073,041	497,514	539,043	10,739	2,120,337	5,858,912	7,979,249
Less: Allowance for Uncollectibles						4,221,987	4,221,987
Net Total Receivables	<u>\$ 1,073,041</u>	<u>\$ 497,514</u>	<u>\$ 539,043</u>	<u>\$ 10,739</u>	<u>\$ 2,120,337</u>	<u>\$ 1,636,925</u>	<u>\$ 3,757,262</u>

Note 4. Concentrations of Credit Risk

Hardin County grants credit without collateral to garbage collection, ambulance service, and landfill customers. The County has established an allowance of \$4,221,987 for ambulance service accounts. No allowance has been established for garbage and landfill accounts. Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The Hospital has established an allowance of \$14,257,581. The percentages of receivables from patients and third-party payors as of June 30, 2014, were as follows:

Medicare	36%
Medicaid	18%
Other Third-part Payors	26%
Patients	20%
	<u>100%</u>

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 5. Interfund Transfers

	General Fund	Jail Fund	Solid Waste Fund	Non-Major Governmental Funds	Total Transfers In
General Fund	\$	\$	\$ 153,000	\$ 75,662	\$ 228,662
Road Fund				37,373	37,373
Jail Fund	3,478,800				3,478,800
Internal Service Fund	296,393				296,393
Solid Waste Fund	460,000				460,000
Non-Major Governmental Funds	1,022,278	803,375		4,209	1,829,862
Total Transfers Out	<u>\$ 5,257,471</u>	<u>\$ 803,375</u>	<u>\$ 153,000</u>	<u>\$ 117,244</u>	<u>\$ 6,331,090</u>

Reason for transfers:

(1) To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them; (2) to move resources from funds recording revenue to the fund making debt service payments; (3) to move resources from the permanent funds to the fund designated to receive the earnings. These transfers were eliminated in the preparation of the *Statement of Activities* to include only those transfers between governmental activities and business-type activities.

The *Balance Sheet – Governmental Funds* at June 30, 2014, show a due from the Capital Improvements Fund and due to the General Fund in the amount of \$933,336, for expenditures paid from the General Fund, but included in the Capital Improvements Fund expenditures on the *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds* for the year ended June 30, 2014.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 19,245,203	\$ 179,885	\$	\$ 19,425,088
Construction In Progress	305,546	2,842,812		3,148,358
Total Capital Assets Not Being Depreciated	19,550,749	3,022,697		22,573,446
Capital Assets, Being Depreciated:				
Buildings	21,342,332	1,480,812	(213,766)	22,609,378
Equipment and Books	10,943,269	307,486		11,250,755
Vehicles	6,229,569	1,373,426	(20,600)	7,582,395
Infrastructure	98,213,275	862,100		99,075,375
Total Capital Assets Being Depreciated	136,728,445	4,023,824	(234,366)	140,517,903
Less Accumulated Depreciation For:				
Buildings	(6,149,986)	(379,915)	70,337	(6,459,564)
Equipment and Books	(8,346,335)	(543,024)		(8,889,359)
Vehicles	(4,291,228)	(353,602)	11,232	(4,633,598)
Infrastructure	(51,369,977)	(2,316,556)		(53,686,533)
Total Accumulated Depreciation	(70,157,526)	(3,593,097)	81,569	(73,669,054)
Total Capital Assets, Being Depreciated, Net	66,570,919	430,727	(152,797)	66,848,849
Governmental Activities Capital Assets, Net	\$ 86,121,668	\$ 3,453,424	\$ (152,797)	\$ 89,422,295

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 225,869
Protection to Persons and Property	851,862
General Health and Sanitation	37,078
Recreation and Culture	161,732
Roads, Including Depreciation of General Infrastructure Assets	2,316,556
Total Depreciation Expense - Governmental Activities	<u>\$ 3,593,097</u>

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 6. Capital Assets (Continued)

Capital asset activity for Business-Type Activities for the year ended June 30, 2014 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 11,826,028	\$ 102,409	\$	\$ 11,928,437
Construction In Progress	1,409,210	11,462,774	(1,424,648)	11,447,336
Total Capital Assets Not Being Depreciated	<u>13,235,238</u>	<u>11,565,183</u>	<u>(1,424,648)</u>	<u>23,375,773</u>
Capital Assets, Being Depreciated:				
Land Improvements	6,025,908			6,025,908
Buildings and Improvements	89,853,888	1,551,653		91,405,541
Landfill	28,758,172			28,758,172
Equipment	184,729,549	7,486,810	(2,129,227)	190,087,132
Vehicles	135,187	10,800		145,987
Total Capital Assets Being Depreciated	<u>309,502,704</u>	<u>9,049,263</u>	<u>(2,129,227)</u>	<u>316,422,740</u>
Less Accumulated Depreciation For:				
Land Improvements	(3,741,161)	(294,516)		(4,035,677)
Buildings and Improvements	(42,240,007)	(3,064,750)		(45,304,757)
Landfill	(12,958,225)	(968,110)		(13,926,335)
Equipment	(146,644,926)	(8,514,090)	2,036,889	(153,122,127)
Vehicles	(69,285)	(7,149)		(76,434)
Total Accumulated Depreciation	<u>(205,653,604)</u>	<u>(12,848,615)</u>	<u>2,036,889</u>	<u>(216,465,330)</u>
Total Capital Assets, Being Depreciated, Net	<u>103,849,100</u>	<u>(3,799,352)</u>	<u>(92,338)</u>	<u>99,957,410</u>
Business-Type Activities Capital Assets, Net	<u>\$ 117,084,338</u>	<u>\$ 7,765,831</u>	<u>\$ (1,516,986)</u>	<u>\$ 123,333,183</u>

Depreciation expense was charged to functions of the Business-Type Activities as follows:

<u>Business-Type Activities</u>	
Solid Waste Fund	\$ 1,005,059
Jail Commissary	1,560
Hardin Memorial Hospital	<u>11,841,996</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 12,848,615</u>

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 6. Capital Assets (Continued)

Capital asset activity for the discretely presented component units for the year ended June 30, 2011 was as follows:

Hardin County Planning and Development Commission:	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital Assets, Being Depreciated:				
Equipment	\$ 25,196	\$	\$	\$ 25,196
Vehicles	23,140			23,140
Total Capital Assets Being Depreciated	48,336			48,336
Less Accumulated Depreciation For:				
Equipment	(22,842)	(2,354)		(25,196)
Vehicles	(4,628)	(4,628)		(9,256)
Total Accumulated Depreciation	(27,470)	(6,982)		(34,452)
Total Capital Assets, Being Depreciated, Net	20,866	(6,982)		13,884
Capital Assets, Net	<u>\$ 20,866</u>	<u>\$ (6,982)</u>	<u>\$ 0</u>	<u>\$ 13,884</u>

Depreciation expense was charged to functions of the discretely presented major component unit as follows:

Hardin County Planning and Development Commission	<u>\$ 6,982</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 6,982</u>

Note 7. Long-term Debt

A. General Obligation Refunding Bonds, Series 2011

The Hardin Fiscal Court issued \$3,915,000 in General Obligations Refunding Bonds, dated November 30, 2011, to refund the Series 2002 General Obligation Bonds of \$3,760,000. The final maturity date of the 2011 series bonds is December 1, 2021 and the bonds carry an interest rate ranging from 1.0% to 2.25%. The County completed the refunding to reduce its total debt service payments over the next twelve (12) years by \$382,603 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$353,621. As of June 30, 2014, bonds outstanding were \$2,300,000. Future principal and interest requirements are:

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 7. Long-term Debt (Continued)

A. General Obligation Refunding Bonds, Series 2011 (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2015	\$ 765,000	\$ 35,750
2016	125,000	30,675
2017	225,000	27,175
2018	225,000	22,675
2019	230,000	18,125
2020-22	730,000	24,563
Totals	<u>\$ 2,300,000</u>	<u>\$ 158,963</u>

B. General Obligation Refunding Bonds, Series 2008

The Hardin Fiscal Court issued \$9,830,000 in General Obligations Refunding Bonds, dated June 1, 2008, at an interest rate of 3.4%. The proceeds of the bonds were for the purpose of partially advance refunding the 1999 General Obligation Bonds and a Solid Waste project (expansion). The final maturity date is June 1, 2019. As of June 30, 2014, bonds outstanding were 5,270,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2015	\$ 985,000	\$ 179,180
2016	1,020,000	145,690
2017	1,055,000	111,010
2018	1,085,000	75,140
2019	1,125,000	38,250
Totals	<u>\$ 5,270,000</u>	<u>\$ 549,270</u>

C. General Obligation Refunding Bonds, Series 2009

The Hardin Fiscal Court issued \$1,410,000 in General Obligations Refunding Bonds, dated September 1, 2009, at an interest rates ranging from 1% to 2.8%. The proceeds of the bonds were for the purpose of advance refunding the 2005 General Obligation Bonds, in the amount of \$1,330,000. The final maturity date is January 1, 2017. As of June 30, 2014, bonds outstanding were 550,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2015	\$ 175,000	\$ 14,058
2016	185,000	9,945
2017	190,000	5,320
Totals	<u>\$ 550,000</u>	<u>\$ 29,323</u>

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 7. Long-term Debt (Continued)

D. Financing Obligations-Library and Landfill

On June 25, 2001, Hardin County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust to be used for the construction of a new county library and expansion of the Hardin County landfill. The principal was \$4,800,000 (\$1,300,000 for library and \$3,500,000 for the landfill expansion) at an effective interest rate of 4.5%, for fifteen (15) years, with interest paid monthly and principal annually. The principal outstanding as of June 30, 2014, was \$850,000 (\$229,500 for the library and \$620,500 for the landfill expansion). Annual debt service requirements are as follow:

Fiscal Year Ended June 30	Governmental Activities		Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest & Fees		Principal	Interest
2015	\$ 112,050	\$ 9,655	2015	\$ 302,950	\$ 26,105
2016	117,450	3,619	2016	317,550	9,783
Totals	<u>\$ 229,500</u>	<u>\$ 13,274</u>	Totals	<u>\$ 620,500</u>	<u>\$ 35,888</u>

E. Financing Obligations-Ambulance Cots

In fiscal year 2013, Hardin County Fiscal Court entered into an agreement to purchase ambulance cots at a cost of \$112,725. The agreement requires three annual payments of \$37,575 beginning in fiscal year 2013 and ending in fiscal year 2015. Principal payment requirements (includes any interest) for the remaining term of the contract are as follows:

Fiscal Year Ended June 30	Governmental Activities Principal
2015	\$ 37,575
Totals	<u>\$ 37,575</u>

F. Financing Obligations-Glendale Project

On August 9, 2002, Hardin County Fiscal Court entered into a non-interest bearing loan agreement with Kentucky Cabinet of Economic Development to provide funds to assist in purchasing a parcel of land at Glendale, Kentucky, to be used as a future manufacturing site. The loan provides for up to \$10,950,000, of funds and is for a period of ten years with an automatic renewal for another period of ten years. The principal outstanding as of June 30, 2014, was \$10,639,585. Fiscal Court is not required to repay any principal unless the land is sold. The Fiscal Court is only required to repay principal in the amount of net proceeds received for the sale of the land. The loan is secured by a mortgage on the land.

G. General Obligation Bonds, Series 2013

The Hardin Fiscal Court issued \$1,000,000 General Obligations Refunding Bonds, dated December 20, 2013, for the acquisition and equipping five ambulances. The bonds were issued at an interest rate of 2.4% and will be retired by April 1, 2018. Interest payments are due monthly and principal on April 1. The principal outstanding as of June 30, 2014, was \$797,767. Annual debt service requirements are as follow:

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 7. Long-term Debt (Continued)

G. General Obligation Bonds, Series 2013 (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2015	\$ 200,000	\$ 18,599
2016	200,000	13,772
2017	200,000	8,866
2018	197,767	4,008
Totals	<u>\$ 797,767</u>	<u>\$ 45,245</u>

H. General Obligation Bonds, Series 2014A and 2014B

The Hardin Fiscal Court issued \$11,055,000 (\$1,255,000 series A and \$9,800,000 series B) in General Obligations Refunding Bonds, dated April 30, 2014, for the construction of a new government building. The bonds were issued at interest rates ranging from 2% to 4% and will be retired by April 1, 2039. Interest payments are due on October 1 and interest and principal April 1. The principal outstanding as of June 30, 2014, was \$11,055,000 (\$1,255,000 series A and \$9,800,000 series B). Annual debt service requirements are as follow:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2015	\$	\$ 25,871
2016	135,000	28,138
2017	180,000	25,437
2018	180,000	21,838
2019	185,000	18,237
2020-2023	575,000	30,837
Totals	<u>\$ 1,255,000</u>	<u>\$ 150,358</u>

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2015	\$	\$ 302,152
2016		328,625
2017		328,625
2018		328,625
2019		328,625
2020-2024	1,475,000	1,595,450
2025-2029	2,325,000	1,347,675
2030-2034	2,730,000	947,300
2035-2039	3,270,000	402,400
Totals	<u>\$ 9,800,000</u>	<u>\$ 5,909,477</u>

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 7. Long-term Debt (Continued)

I. Revenue Bonds - Hardin Memorial Hospital

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, issued revenue bonds totaling \$39,400,000, at interest rates ranging from 5% to 5.5%, for North Tower and Emergency Department projects. Interest payments are due February 1 and interest and principal payments are due August 1. The bond agreement requires the Hospital to fund certain accounts, which are included in assets whose use is limited, to be pay principal and interest. Such agreements also contain several covenants and restrictions involving the source of additional debt and income available for debt service and operations of the Hospital. At June 30, 2014, the Hospital was in compliance with such requirements. Annual debt service requirements are as follow:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2015	\$	\$ 2,214,120
2016		2,214,120
2017	545,000	2,198,451
2018	575,000	2,166,251
2019	610,000	2,132,183
2020-2024	3,620,000	10,080,013
2025-2029	4,720,000	8,976,288
2030-2034	6,190,000	7,512,488
2035-2039	7,970,000	5,510,220
2040-2044	10,195,000	2,963,241
2045-2046	4,975,000	290,231
Totals	<u>\$ 39,400,000</u>	<u>\$ 46,257,606</u>

J. Financing Obligation - Hardin Memorial Hospital

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, is obligated under capital leases for equipment at June 30, 2014. The following is a schedule by year of future minimum lease payments, including interest at 0 percent:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2015	\$ 299,072	\$
2016	299,072	
2017	249,227	
Total	<u>\$ 847,371</u>	<u>\$ 0</u>

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 7. Long-term Debt (Continued)

K. Hardin Memorial Hospital Line of Credit

One November 1, 2011, the Hospital obtained a \$5,000,000 revolving line of credit, expiring on August 5, 2015. At June 30, 2014, there was \$0 borrowed against this line. The line is collateralized by substantially all of the Hospital's assets. Interest is payable quarterly at a fixed rate of 3 percent on June 30, 2014.

L. Deferred Inflows

GABS 65 provides' financial reporting guidance relative to deferred inflows of resources, an acquisition of assets by the entity that is applicable to a future reporting period. The following table provides information about amounts reported as deferred inflows on the Entity wide Statement of Net Position.

	<u>Business-type Activities</u>
Deferred Inflow of Resources:	
Deferred Gain on Refunding	<u>\$ 78,881</u>

M. Aggregate Debt Schedules

The amounts of required principal and interest payments on long-term obligations at June 30, 2014, were as follows:

Fiscal Year Ended June 30	<u>Governmental Activities</u>			
	<u>Bonds</u>		<u>Financing Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 965,000	\$ 382,372	\$ 149,625	\$ 9,655
2016	460,000	401,210	117,450	3,619
2017	605,000	390,103		
2018	602,767	377,146		
2019	415,000	364,987		
2020-2024	2,780,000	1,650,850	10,639,585	
2025-2029	2,325,000	1,347,675		
2030-2034	2,730,000	947,300		
2035-2039	3,270,000	402,400		
	<u>\$ 14,152,767</u>	<u>\$ 6,264,043</u>	<u>\$10,906,660</u>	<u>\$ 13,274</u>

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 7. Long-term Debt (Continued)

M. Aggregate Debt Schedules (Continued)

Fiscal Year Ended June 30	Business-type Activities			
	Bonds		Financing Obligations	
	Principal	Interest	Principal	Interest
2015	\$ 1,160,000	\$ 2,407,358	\$ 602,022	\$ 26,105
2016	1,205,000	2,369,755	616,622	9,783
2017	1,790,000	2,314,781	249,227	
2018	1,660,000	2,241,391		
2019	1,735,000	2,170,433		
2020-2024	3,620,000	10,080,013		
2025-2029	4,720,000	8,976,288		
2030-2034	6,190,000	7,512,488		
2035-2039	7,970,000	5,510,220		
2040-2044	10,195,000	2,963,241		
2045-2046	4,975,000	290,231		
	<u>\$ 45,220,000</u>	<u>\$ 46,836,199</u>	<u>\$ 1,467,871</u>	<u>\$ 35,888</u>

N. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 3,060,000	\$ 12,055,000	\$ (962,233)	\$14,152,767	\$ 965,000
Unamortized Discount		(4,305)	430	(3,875)	
Unamortized Premium	15,350	96,790	(5,642)	106,498	
Financing Obligations:					
Glendale Project	10,639,585			10,639,585	
Other	412,650		(145,575)	267,075	149,625
Compensated Absences	621,930	66,277		688,207	60,480
Governmental Activities Long-term Liabilities	<u>\$ 14,749,515</u>	<u>\$ 12,213,762</u>	<u>\$ (1,113,020)</u>	<u>\$25,850,257</u>	<u>\$ 1,175,105</u>

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 7. Long-term Debt (Continued)

N. Changes In Long-term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Business-type Activities:</u>					
General Obligation Bonds	\$ 6,940,000	\$	\$(1,120,000)	\$ 5,820,000	\$ 1,160,000
Unamortized Discount	(2,945)		736	(2,209)	
Revenue Bonds		39,400,000		39,400,000	
Unamortized Premium		170,554	(888)	169,666	
Financing Obligations	912,500	1,096,598	(541,227)	1,467,871	602,022
Business-type Activities					
Long-term Liabilities	<u>\$ 7,849,555</u>	<u>\$ 40,667,152</u>	<u>\$(1,661,379)</u>	<u>\$46,855,328</u>	<u>\$ 1,762,022</u>

Note 8. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$15,448 in interest on financing obligations and \$53,419 in interest on bonds.

Note 9. Employee Retirement System

A. Hardin County Fiscal Court

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 18.89 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$2,046,769; FY 2013 was \$2,139,175; and FY 2014 was \$2,117,323.

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.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 9. Employee Retirement System (Continued)

A. Hardin County Fiscal Court (Continued)

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.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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.

B. Hardin Memorial Hospital

Defined Contribution Plan Description

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, contributes to a defined contribution pension plan covering substantially all employees. Participating employees may contribute to a 401(k) or 457(b) account through a plan administered by the Kentucky Deferred Compensation Authority. The plan provides retirement benefits to plan members and their beneficiaries. The Hospital matches half of the contributions made by participants at up to 5 percent of their salary. Contributions actually made by plan members and the Hospital aggregated \$4,205,043 and \$1,151,735 during 2014.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 9. Employee Retirement System (Continued)

B. Hardin Memorial Hospital (Continued)

Defined Benefit Plan Description

The Hardin Memorial Hospital Restated Retirement Plan (Plan) is a single-employer defined benefit pension plan covering substantially all employees. The Plan provides retirement, disability and death benefits to Plan members and their designated beneficiaries. The Board of the Hospital has the authority to establish and amend the benefit provisions of the Plan at any time. If the Plan is terminated, the Plan assets will be distributed among the Plan participants based upon a priority allocation procedure. The Hospital would then be liable for any unfunded vested benefits to the extent required by law.

The Plan does not issue a stand-alone financial report.

The entire cost of the Plan is borne by the Hospital. Therefore, active Plan members are not required to contribute to the Plan. The Hospital is required to contribute at an actuarially determined rate. Contribution requirements are established and may be amended by the Board of the Hospital. The annual required contribution for 2014 was determined as part of the July 1, 2012, actuarial valuation using the projected unit credit method. The 30-year funding rate is 3.9 percent of expected covered payroll for the year ended June 30, 2014, which is lower than the 5 percent of expected covered payroll for the year ended June 30, 2013.

Annual Pension Cost and Net Pension Obligation

The Hospital's annual pension cost and net pension obligation for the current year were as follows:

	<u>2014</u>
Annual Required Contribution	\$ 3,330,714
Net Pension Obligation, Beginning of Year	
Interest on Net Pension Obligation	
Annual Minimum Contribution Adjustment	<u> </u>
Annual Pension Cost	3,330,714
Contributions Made	<u>3,330,714</u>
Net Pension Obligation, End of Year	<u>\$ 0</u>

Three year trend information:

Fiscal Year Ended <u>June 30</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$3,198,701	100%	\$ 0
2013	\$3,514,745	100%	\$ 0
2014	\$3,330,714	100%	\$ 0

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 9. Employee Retirement System (Continued)

B. Hardin Memorial Hospital (Continued)

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the Plan was 79 percent funded. The actuarial accrued liability for benefits was \$70,998,452 and the actuarial value of assets was \$55,966,160, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,032,292. The covered payroll (annual payroll of active employees covered by the Plan) was \$84,742,917 and the ratio of the UAAL to the covered payroll was 17.74 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

In the July 1, 2013, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 7.34 percent investment rate of return and salary increases were projected to be 4.00 percent. The actuarial value of assets was determined using market value. The UAAL is being amortized on a level dollar basis over a rolling 30-year period with respect to current Plan participants only.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

C. Hardin County Planning and Development Commission

Hardin County Planning and Development Commission, a discretely presented component unit of Hardin County Fiscal Court, participates in two defined contribution plans. Employees may defer a portion of their salary into either a 401(k) plan or a 457 plan with Kentucky Public Employee's Deferred Compensation Authority. The Commission makes employer contributions to the 401(k) plan at a minimum rate of 25.75% per employee for the current fiscal year. Additional amounts are contributed for employees who do not participate in the employer provided insurance plan. The Commission's contributions for the year ended June 30, 2014 were \$72,572, which consisted of \$65,169 from the Commission and \$7,403 from the employees. Payroll for plan employees was \$253,082. The Commission contributed the scheduled amount for the year ended June 30, 2014.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 10. Post-Employment Health Care Plan

Plan Description

Effective with retirements on or after July 1, 1992, Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court provides medical coverage to eligible retirees and their spouses. Retirees and their spouses are eligible to participate in the same medical plan in which they participated while actively employed. This coverage ceases for both retirees and spouses upon attainment of age 65. Employees hired on July 1, 2005, or thereafter are not eligible for this medical coverage.

Funding Policy

The Plan is a pay-as-you-go plan and, therefore, is not funded. The Hospital funds on a cash basis as benefits are paid. No assets have been segregated or restricted to provide for other post-employment benefits (OPEB).

Annual Other Post-Employment Benefits Cost and Net Other Post-Employment Benefits Obligation

The Hospital's annual other OPEB cost (expense) is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any UAAL or funding excess over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the Hospital's net OPEB obligation to the Plan:

	<u>2014</u>
Annual Required Contribution	\$ 844,843
Interest on Net OPEM Cost (Expense)	113,783
Adjustment to ARC	<u>(164,502)</u>
Annual OPEB Cost (Expense)	794,124
Contributions Made	<u>(327,250)</u>
Increase in Net OPEB Obligation	466,874
Net OPEB Obligation - Beginning of Year	<u>2,924,665</u>
Net OPEB Obligation - Beginning of Year	<u><u>\$ 3,391,539</u></u>

The Hospital's annual OPEB cost (expense), the percentage of annual OPEB cost (expense) contributed to the Plan and the net OPEB obligation, were as follows:

Fiscal Year Ended <u>June 30</u>	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 828,772	47%	\$ 2,518,640
2013	\$ 801,733	49%	\$ 2,924,665
2014	\$ 794,124	41%	\$ 2,844,568

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 10. Post-Employment Health Care Plan (Continued)

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the Plan had no assets, since the Hospital does not fund the Plan. The UAAL for benefits was \$10.17 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities (AAL) for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used, include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 4 percent discount rate, an annual health care cost trend rate of 7.5 percent initially, reduced by decrements to an ultimate coverage with 55 percent of male retirees and 35 percent of female retirees electing coverage who have spouses are assumed to elect spousal coverage. The UAAL is being amortized at a level dollar amount over 30 years. Because the UAAL is being amortized by an open or rolling amortization period, with re-amortization of the UAAL in each valuation, the amortization amounts will never fully eliminate the UAAL.

Note 11. Deferred Compensation

The Hardin 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.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 12. Insurance

For the fiscal year ended June 30, 2014, Hardin 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 13. Self -Insurance

A. Hardin County Fiscal Court

As disclosed in Note 1, Hardin County established a self-funded dental insurance plan effective July 1, 2006; this was expanded to include health insurance effective July 1, 2011. The self-funded Internal Service Fund (Employee Insurance Fund) is available to employees for health and dental care. Hardin County contracts with a benefits administrator to administer the employee insurance plan. The contract automatically renews until terminated by either party.

This self-funded insurance plan has two distinct. The first component is the fixed costs, which consists of administrative costs to run the plan. The second component consists of employee claims. There is no stop loss reinsurance or terminal liability provision for the dental plan, but there is for the health plan. The fiscal court is responsible to pay all claims in excess of the funds available in the Internal Service Fund. Changes in claims liability during fiscal years ended June 30, 2014 and June 30, 2013, were as follows:

Fiscal Year Ended June 30	Balance at Beginning of Fiscal Year	Current Year		Balance at Beginning of Fiscal Year
		Claims and Changes in Estimates	Claim Payments	
2014	\$ 0	\$ 1,750,908	\$ 1,750,908	\$ 0
2013	\$ 120,487	\$ 1,096,298	\$ 1,216,785	\$ 0

B. Hardin Memorial Hospital

Substantially all of the Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to \$300,000 per individual claim. Commercial stop-loss insurance coverage is purchased for claims in excess of \$300,000 per covered person. A provision is accrued for self-insured employee health claims including both claims reported and incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible the Hospital's estimate will change by a material amount in the near term. Activity in the Hospital's accrued employee health claims liability, which is included in accrued expenses in the balance sheets, during 2014 and 2013, is summarized as follows:

Fiscal Year Ended June 30	Balance at Beginning of Fiscal Year	Current Year		Balance at Beginning of Fiscal Year
		Claims and Changes in Estimates	Claim Payments	
2014	\$ 1,150,000	\$ 14,238,640	\$ 14,338,640	\$ 1,050,000
2013	\$ 1,000,000	\$ 13,846,412	\$ 13,696,412	\$ 1,150,000

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 14. Closure and Postclosure Care Cost of Municipal Solid Waste Landfill

State and federal laws and regulations require Hardin County to place a final cover on its Municipal Solid Waste Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste. Total landfill closure and postclosure costs at June 30, 2014, are estimated at \$7,388,797 and \$1,454,585 based on landfill capacity used to date. The current portion of estimated costs totals \$5,005,799. Actual cost may be higher due to inflation, changes in technology, or changes in applicable laws or regulations. Estimates are adjusted for inflation. The projected date of closure for the current permitted space is the year August 2036. No cost related to closure or postclosure care has been incurred to date. The County began contributing \$8,750 per quarter in September 2009 to a landfill escrow account to be used at closure. The balance of the account at June 30, 2014 was \$2,818,942. This is the amount reflected as restricted net position in the accompanying financial statements. As of January 4, 2014, approximately 57% of the landfill airspace had been used. The estimated remaining landfill life is 21.6 years.

Note 15. Medical Malpractice

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, is self-insured for the first \$1,000,000 per occurrence and \$3,000,000 aggregate for medical malpractice and general liability risks and has established a risk retention fund for the payment of medical malpractice and general liability claims settlements. The Hospital purchases commercial insurance above the self-insurance limits. Losses from asserted and unasserted claims identified under the Hospital's incident reporting system are reviewed by professional insurance consultants and accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible the Hospital's estimated losses will change by a material amount in the near term. Management is not aware of any such claims.

Activity in the Hospital's accrued medical malpractice claims liability, which is included in other noncurrent liabilities in the *Statement of Net Position*, during 2014 is summarized as follows:

Balance, Beginning of Year	\$ 5,476,502
Current Year Claims Incurred and Changes in	
Estimates for Claims Incurred in Prior Years	1,262,488
Claims and Expenses Paid	<u>(539,909)</u>
Balance, End of Year	<u>\$ 6,199,081</u>

Note 16. Endowment Funds

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, is the income beneficiary of endowment funds held in trust by outside parties. Under the terms of the trust, the Hospital has the irrevocable right to receive income earned on the trust assets in perpetuity but never receives the assets held in trust. Unrestricted income received for the years ended June 30, 2014, was \$24,461. The principal of the funds (market value as of June 30, 2014 was an aggregated \$632,611) is not directly or indirectly controlled by the Hospital. Accordingly, such endowment funds are not included as assets on the Hospital's balance sheets.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 17. Worker's Compensation

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, has a letter of credit with Kentucky Neighborhood Bank in the amount of \$2,264,018, which expires on January 6, 2015, for the Hospital's self-funded workers' compensation plan. The letter of credit is a requirement of the Kentucky Labor Cabinet's Department of Worker's Claims for all self-insured employers in the Commonwealth of Kentucky. Commercial stop-loss coverage is purchased for claims in excess of \$650,000. As of June 30, 2014, the Hospital has recorded a liability for the workers' compensation plan of approximately \$450,000.

Note 18. Commitments

A. Hardin Memorial Hospital

At June 30, 2014, Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, had approximately \$10,738,000 of purchase commitments for capital equipment and construction projects.

B. Hardin County Planning and Development Commission

At June 30, 2014, Hardin County Planning and Development Commission, a discretely presented component unit of Hardin County Fiscal Court, has \$53,239 committed for repayment of developer advances.

Note 19. Contingencies

The County and Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, are 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 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 20. Related Party Transactions

A magistrate is employed at an agency that receives office space and utilities from Hardin County Fiscal Court as funding in the amount of \$15,000.

Note 21. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual historical cost.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)

Note 22. Subsequent Events

On January 27, 2015, the Fiscal Court adopted resolution 2015-019, approving a lease for the financing of a project related to E-911 equipment. The county closed on a financing obligation for \$920,000, on March 26, 2015.

On February 12, 2015, the Fiscal Court which serves as the Board of Trustees of the Memorial Hospital, a blended component unit of Hardin County Fiscal Court, voted to authorize the purchase of a piece of property for \$1,975,000.

Note 23. Changes in Accounting Principles, Reporting Practices and Prior Period Adjustments

GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities was adopted and implemented during the fiscal year which resulted in a restatement of beginning fund balance/net position for the Solid Waste Fund. All applicable provisions of this statement have been incorporated into the financial statements and notes. The Solid Waste Fund net position as previously reported has been restated to conform to generally accepted accounting principles. The effect on net position was a decrease of \$152,559. The Solid Waste Fund net position was also increased by \$245, due to errors in prior years. The beginning net position of the governmental activities was decreased by \$56,400, due the adoption of GASB 65. The beginning net position of the governmental activities was decreased by \$84,632 due errors in prior years in capital assets. The Jail Commissary Fund net position was decreased by \$26,028, due to unrecorded payables in the prior year.

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HARDIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Budgetary Basis

For The Year Ended June 30, 2014

HARDIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Budgetary Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 7,967,700	\$ 7,967,700	\$ 7,632,358	\$ (335,342)
Excess Fees	1,030,500	1,030,500	968,839	(61,661)
Licenses and Permits	197,000	197,000	196,219	(781)
Intergovernmental Revenue	866,500	866,500	792,863	(73,637)
Charges for Services	5,716,200	5,716,200	5,499,149	(217,051)
Miscellaneous	1,831,600	1,831,600	232,342	(1,599,258)
Interest	90,000	90,000	39,697	(50,303)
Total Revenues	<u>17,699,500</u>	<u>17,699,500</u>	<u>15,361,467</u>	<u>(2,338,033)</u>
EXPENDITURES				
General Government	4,210,941	4,093,178	3,772,740	320,438
Protection to Persons and Property	9,194,769	9,140,091	7,424,564	1,715,527
General Health and Sanitation	565,122	569,459	520,724	48,735
Social Services	118,505	118,039	118,038	1
Recreation and Culture	940,570	937,213	127,209	810,004
Airports				
Debt Service				
Capital Projects	12,571,000	1,449,072	1,407,643	41,429
Administration	718,749	887,487	849,551	37,936
Total Expenditures	<u>28,319,656</u>	<u>17,194,539</u>	<u>14,220,469</u>	<u>2,974,070</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(10,620,156)</u>	<u>504,961</u>	<u>1,140,998</u>	<u>636,037</u>
OTHER FINANCING SOURCES (USES)				
Adjustment To Prior Year Surplus			20	20
Bond Proceeds	10,000,000	11,000,000	1,000,000	(10,000,000)
Government Leasing Receipts	2,000,000	1,000,000		(1,000,000)
Transfers From Other Funds			232,877	232,877
Transfers To Other Funds	(2,879,844)	(2,879,844)	(4,961,077)	(2,081,233)
Total Other Financing Sources (Uses)	<u>9,120,156</u>	<u>9,120,156</u>	<u>(3,728,180)</u>	<u>(12,848,336)</u>
Net Changes in Fund Balance	(1,500,000)	9,625,117	(2,587,182)	(12,212,299)
Fund Balance - Beginning	1,500,000	1,500,000	10,623,235	9,123,235
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 11,125,117</u>	<u>\$ 8,036,053</u>	<u>\$ (3,089,064)</u>

HARDIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Budgetary Basis
For The Year Ended June 30, 2014
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$ 15,000	\$ 15,000	\$ 13,655	\$ (1,345)
Intergovernmental Revenue	3,048,534	3,048,534	3,044,364	(4,170)
Miscellaneous	160,000	160,000	112,729	(47,271)
Interest	15,000	15,000	6,769	(8,231)
Total Revenues	<u>3,238,534</u>	<u>3,238,534</u>	<u>3,177,517</u>	<u>(61,017)</u>
EXPENDITURES				
General Government	8,000	8,000	6,753	1,247
Roads	2,749,906	2,705,393	2,628,203	77,190
Administration	530,628	536,385	524,823	11,562
Total Expenditures	<u>3,288,534</u>	<u>3,249,778</u>	<u>3,159,779</u>	<u>89,999</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(50,000)</u>	<u>(11,244)</u>	<u>17,738</u>	<u>28,982</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	50,000	50,000	50,686	686
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>50,000</u>	<u>50,686</u>	<u>686</u>
Net Changes in Fund Balance		38,756	68,424	29,668
Fund Balance - Beginning			<u>168,170</u>	<u>168,170</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 38,756</u>	<u>\$ 236,594</u>	<u>\$ 197,838</u>

HARDIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Budgetary Basis
For The Year Ended June 30, 2014
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 4,445,800	\$ 4,445,800	\$ 3,911,285	\$ (534,515)
Charges for Services	370,000	370,000	353,854	(16,146)
Miscellaneous	246,000	246,000	137,956	(108,044)
Interest	6,000	6,000	1,821	(4,179)
Total Revenues	<u>5,067,800</u>	<u>5,067,800</u>	<u>4,404,916</u>	<u>(662,884)</u>
EXPENDITURES				
Protection to Persons and Property	5,229,394	5,210,220	5,049,060	161,160
Debt Service	803,375			
Capital Projects	40,000	40,000	21,867	18,133
Administration	2,167,875	2,187,463	2,042,005	145,458
Total Expenditures	<u>8,240,644</u>	<u>7,437,683</u>	<u>7,112,932</u>	<u>324,751</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(3,172,844)</u>	<u>(2,369,883)</u>	<u>(2,708,016)</u>	<u>(338,133)</u>
OTHER FINANCING SOURCES (USES)				
Adjustment To Prior Year Surplus			3,434	3,434
Transfers From Other Funds	2,829,844	2,829,844	3,478,800	648,956
Transfers To Other Funds		(803,375)	(803,375)	
Total Other Financing Sources (Uses)	<u>2,829,844</u>	<u>2,026,469</u>	<u>2,678,859</u>	<u>652,390</u>
Net Changes in Fund Balance	(343,000)	(343,414)	(29,157)	314,257
Fund Balance - Beginning	343,000	343,000	83,469	(259,531)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (414)</u>	<u>\$ 54,312</u>	<u>\$ 54,726</u>

HARDIN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

Note 1. 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 expenditures 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. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Budgetary Basis vs. GAAP

Accounting principles applied for purposes of developing data on budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. Also included in the reconciling items is the activity of the Local Government Economic Fund (LGEA), included that is included with the Road Fund, because of GASB 54. A schedule reconciling the fund balance on a cash basis at June 30, 2014, to the fund balance on an accrual basis follows:

	General Fund	Road Fund	Jail Fund
<u>Sources/Inflows of Resources</u>			
Actual Amount (Budgetary Basis)	\$ 15,361,467	\$ 3,177,517	\$ 4,404,916
Differences - Budget to GAAP:			
The County Budgets for Revenues only to the Extent they are Excepted to be Received Rather than on the Modified Accrual Basis	(229,195)	15,608	293,787
Addition of LGEA Fund Revenue		<u>274,163</u>	
Total Revenues as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	<u>\$ 15,132,272</u>	<u>\$ 3,467,288</u>	<u>\$ 4,698,703</u>

HARDIN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2014
(Continued)

Note 2. Budgetary Basis vs. GAAP (Continued)

Sources/Outflows of Resources	General Fund	Road Fund	Jail Fund
Actual Amount (Budgetary Basis)	\$ 14,220,469	\$ 3,159,779	\$ 7,112,932
Differences - Budget to GAAP: The County Budgets for Claims only the Extent they Expected to be Paid Rather than on the Modified Accrual Basis	(1,183,141)	55,026	199,637
Addition of LGEA Fund Expenditures		276,692	
Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	\$ 13,037,328	\$ 3,491,497	\$ 7,312,569
Other Financing Sources (Uses)			
Actual Amount (Budgetary Basis)	\$ (3,728,180)	\$ 50,686	\$ 2,678,859
Differences - Budget to GAAP: The County Budgets for Transfers only to the extent they are Expected to be Transferred Rather than on the Modified Accrual Basis	(300,609)	(13,313)	
Adjustment To Prior Year Surplus	(20)		
Total Other Financing Sources (Uses) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds	\$ (4,028,809)	\$ 37,373	\$ 2,678,859
Ending Fund Balances			
Actual Amount (Budgetary Basis)	\$ 8,036,053	\$ 236,594	\$ 54,312
Differences - Budget to GAAP: The County Budgets for Transaction only to the extent they are Expected to be Carried Out Rather than on the Modified Accrual Basis	1,636,401	653,630	206,494
Balance of the LGEA Fund		36	
Total Ending Fund Balance as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds	\$ 9,672,454	\$ 890,260	\$ 260,806

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HARDIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HARDIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2014

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants/State's Program (CFDA #14.228)	12-046	\$ 494,000
<u>U. S. Department of Transportation</u>		
Passed-Through State Transportation Cabinet:		
Highway Planning and Construction (CFDA #20.205)	P02 - 628- 0600003423	22,071
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Emergency Management Performance Grants (CFDA #97.042)	PON209514000003351	<u>25,423</u>
Total Expenditures of Federal Awards		<u>\$ 541,494</u>

HARDIN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2014

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hardin County, Kentucky and is presented on a GAAP basis of accounting. 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 court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2014 or were deemed high risk. There was one Type A program. The major program tested was:

- Community Development Block Grants/State's Programs (CFDA #14.228)

Note 3 - Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Hardin County Fiscal Court provided federal awards to the following subrecipient:

<u>Program</u>	<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Pass-Through Grant Amount</u>
Community Development Block Grants/ State's Program	14.228	SpringHaven, Inc.	<u>\$ 470,000</u>

Note 4 - There were no noncash expenditures of federal awards for fiscal year 2014.

**HARDIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS
Other Supplementary Information**

June 30, 2014

**HARDIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS
Other Supplementary Information**

June 30, 2014

	<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>
	<u>State Grant Fund</u>	<u>Federal Grant Fund</u>	<u>Library Fund</u>	
ASSETS				
Cash and Cash Equivalents	\$ 1	\$	\$ 116,932	\$
Investments			58,504	
Total Assets	<u>1</u>		<u>175,436</u>	
LIABILITIES AND FUND BALANCES				
LIABILITES				
Accounts Payable			8,139	
Total Liabilities			<u>8,139</u>	
FUND BALANCES				
Nonspendable:				
Permanent Fund Principal				
Restricted For:				
Recreation and Culture			167,297	
Capital Projects	1			
Permanent Funds				
Total Fund Balances	<u>1</u>		<u>167,297</u>	
Total Liabilities and Fund Balances	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 175,436</u>	<u>\$ 0</u>

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

HARDIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS
Other Supplementary Information
June 30, 2014
(Continued)

Fife Fund	Permanent Funds		Total Non-Major Governmental Funds
	Pauline Walker & Powell Duff Fund	Pauline Walker & Powell Duff Library Trust Fund	
\$ 4,056	\$ 4,340	\$ 1,790	\$ 127,119
2,509,194	891,345	87,819	3,546,862
<u>2,513,250</u>	<u>895,685</u>	<u>89,609</u>	<u>3,673,981</u>
			8,139
			<u>8,139</u>
270,000	459,526	75,000	804,526
			167,297
			1
<u>2,243,250</u>	<u>436,159</u>	<u>14,609</u>	<u>2,694,018</u>
<u>2,513,250</u>	<u>895,685</u>	<u>89,609</u>	<u>3,665,842</u>
<u>\$ 2,513,250</u>	<u>\$ 895,685</u>	<u>\$ 89,609</u>	<u>\$ 3,673,981</u>

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

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HARDIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
Other Supplementary Information

For The Year Ended June 30, 2014

HARDIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
Other Supplementary Information

For The Year Ended June 30, 2014

	<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>
	<u>State Grant Fund</u>	<u>Federal Grant Fund</u>	<u>Library Fund</u>	
REVENUES				
Intergovernmental	\$ 1,003,763	\$ 550,739	\$ 49,108	\$
Charge for Services			49,833	
Miscellaneous			3,191	
Interest			775	
Increase (decrease) in Fair Value of Investments	139		6,445	
Total Revenues	<u>1,003,902</u>	<u>550,739</u>	<u>109,352</u>	
EXPENDITURES				
General Government				
General Health and Sanitation	1,003,763			
Social Services		494,000		
Recreation and Culture			939,334	
Debt Service				1,015,653
Total Expenditures	<u>1,003,763</u>	<u>494,000</u>	<u>939,334</u>	<u>1,015,653</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>139</u>	<u>56,739</u>	<u>(829,982)</u>	<u>(1,015,653)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds			814,209	1,015,653
Transfers To Other Funds	(159)	(56,739)		
Total Other Financing Sources (Uses)	<u>(159)</u>	<u>(56,739)</u>	<u>814,209</u>	<u>1,015,653</u>
Net Change in Fund Balances	(20)		(15,773)	
Fund Balances - Beginning	21		183,070	
Fund Balances - Ending	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 167,297</u>	<u>\$ 0</u>

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

HARDIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
Other Supplementary Information
For The Year Ended June 30, 2014
(Continued)

Fife Fund	Permanent Funds		Total Non-Major Governmental Funds
	Pauline Walker & Powell Duff Fund	Pauline Walker & Powell Duff Library Trust Fund	
\$	\$	\$	\$ 1,603,610
			49,833
			3,191
46,378	16,202	5,438	68,793
2,957	1,272	(533)	10,280
<u>49,335</u>	<u>17,474</u>	<u>4,905</u>	<u>1,735,707</u>
3,196	3,823		7,019
			1,003,763
			494,000
			939,334
			1,015,653
<u>3,196</u>	<u>3,823</u>		<u>3,459,769</u>
46,139	13,651	4,905	(1,724,062)
(37,373)	(18,764)	(4,209)	1,829,862
<u>(37,373)</u>	<u>(18,764)</u>	<u>(4,209)</u>	<u>(117,244)</u>
			1,712,618
8,766	(5,113)	696	(11,444)
2,504,484	900,798	88,913	3,677,286
<u>\$ 2,513,250</u>	<u>\$ 895,685</u>	<u>\$ 89,609</u>	<u>\$ 3,665,842</u>

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

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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harry L. Berry, Hardin County Judge/Executive
Members of the Hardin County Fiscal Court

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

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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Hardin County Fiscal Court as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Hardin County Fiscal Court's basic financial statements, and have issued our report thereon dated June 3, 2015. Other auditors audited the financial statements of the Hardin Memorial Hospital, a blended component unit, as described in our report on Hardin County, Kentucky's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hardin 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hardin County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hardin 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 statements 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 2014-002, 2014-003, and 2014-004 to be material weaknesses.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hardin County's financial statements are free from 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards, and which is described in the accompanying schedule of findings and questioned costs as item 2014-001.

Hardin County Judge/Executive's and Jailer's Responses to Findings

The Hardin County Judge/Executive's and Jailer's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Judge/Executive's and Jailer's responses were not subjected to the auditing procedures applied in the audit of the financial statements 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

June 3, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harry L. Berry, Hardin County Judge/Executive
Members of the Hardin County Fiscal Court

Report On Compliance For Each Major Federal Program
And Report 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 Hardin County, Kentucky's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Hardin County's major federal programs for the year ended June 30, 2014. Hardin 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 Hardin County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 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 Hardin 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 of Hardin County's compliance.

Opinion on Each Major Federal Program

In our opinion, Hardin County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.



Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133
(Continued)

Report on Internal Control over Compliance

Management of Hardin 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 Hardin County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Hardin County Fiscal Court's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the 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

June 3, 2015

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

For The Year Ended June 30, 2014

HARDIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2014

Section I: Summary of Auditor's Results

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Type of auditor's report issued on compliance for major programs: unmodified

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with <u>U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a)</u> ?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

CFDA Numbers and Name of Federal Program or Cluster

14.228 Community Development Block Grant- State's Program

Federal Awards

Type of auditor's report issued on compliance for major programs: unmodified

Internal control over major programs:

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000	
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

HARDIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit

State Laws And Regulations

2014-001 The Hardin County Fiscal Court Did Not Comply With State Law When Making Purchases

Test procedures conducted over the county's disbursements revealed the following deficiencies:

- Bids were not obtained for petroleum products including Diesel and Gas (Key Oil Company)
- Advertised for bids for a used Forestry Truck, but ultimately purchased a new one which was not what the original specifications specified.

KRS 424.260 states when the county purchases, makes a contract, lease, or other agreement involving an expenditure of more than \$20,000, they must advertise for bids. Competitive bidding ensures that the county procures equipment and services at the best price available. By limiting competition, the county may not get the benefits of the best price available. We recommend that the county ensure all purchases exceeding \$20,000 be made in compliance with KRS 424.260 and in the event that no one bids, that the county document this in the fiscal court minutes. We also recommend that the county only select bids for items which they advertised, if no company responds to an advertisement for used item, the fiscal court should rebid for a new item.

County Judge/Executive Harry L. Berry's Response: Due to fluctuating prices of Diesel and Gas in the past, the county has had difficulty obtaining any responses to bids for fuel. Quotes from suppliers were obtained before each purchase to ensure best price. Research is being done to restructure bid specification to provide more flexibility, thereby attempting to entice vendor participation. The vehicle ultimately purchased was a prior model year that was not previously titled. In the future, the county's specifications will be written for both used and new when a used vehicle is anticipated. This will allow greater flexibility.

Internal Control - Material Weaknesses

2014-002 The Hardin County Fiscal Court Did Not Have Adequate Controls Over Offsite Billing Service

Fiscal Court should establish controls that could prevent or detect and lower any potential risk of fraud and possible material misstatement of revenues for offsite billing service. Fiscal Court contracted with a third party for collection of service billings that are material to the financial statements. Auditor determined that the County did not have adequate controls to monitor the activities of the third party billing service. The third party initiates, records, processes, and accounts for all transactions. Additions to and deletions from the master billing log are also initiated by the third party without the knowledge of Fiscal Court of these changes. Receipts from an offsite billing service could be understated and go undetected without controls in place to be monitored by Fiscal Court. There is a direct relationship between the third party billing service and the Fiscal Court because the County entered into an agreement with the billing service for the services to be provided. To assure that all billing and collections of receipts by a third party billing service are properly accounted for, we recommend that Fiscal Court implement controls with the billing service. These controls should include obtaining a copy of the master log of all customers to be billed, informed of additions to and deletions from the master log, changes to dumpster exemptions, and analytical review of billing to revenues received. Strong controls would provide a basis to conclude that the controls are operating effectively.

HARDIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Internal Control - Material Weaknesses (Continued)

2014-002 The Hardin County Fiscal Court Did Not Have Adequate Controls Over Offsite Billing Service (Continued)

County Judge/Executive Harry L. Berry's Response: Before the audit began, the county already revised its procedures and policies to provide better controls for monitoring billing activities more efficiently.

2014-003 Hardin County Fiscal Court Should Improve Controls Over Payroll

Strong internal control policies dictate that all timesheets should be reviewed and approved by a supervisor. Timesheets prepared by an EMS employee were not approved and the same employee submitted the detailed job analysis report to fiscal court for payroll processing. Auditors were made aware of the possible abuse of overtime by an EMS employee. After further inquiry and testing, it was determined that the EMS Director prepared an internal memorandum for job reassignments that changed this employee from a 24 hour paramedic position, to an 8 hour administration position titled "Executive Officer". However, this employee continued to charge overtime for all pay periods after the reassignment. Timesheets were prepared manually. Auditors noted on several timesheets, overtime hours calculated were incorrect. The majority of timesheets prepared by this employee were not approved. As Executive Officer, this employee submitted the job detailed analysis report to the County for payment of payroll. This report details all employees by job title and hours worked. The job title for this employee on the job detail analysis report remained "Paramedic" but timesheets stated "Administrative". This report is required to be signed by the person preparing the report and the EMS Director. By not having strong internal controls in place for review and approval of all timesheets prepared by employees, fraudulent timesheets could be submitted and not be detected. Total overtime hours reported by the employee was 805.5 hours, which resulted in the employee receiving \$18,274 in overtime pay from April 21, 2013 through May 15, 2014. If the amount of overtime reported by the employee (\$18,274) is determined to be owed back to the county, it may be reduced by legitimate overtime worked. Fiscal court order dated August 12, 2014, stated that the EMS investigation by the Kentucky Board of EMS was dismissed because it did not fall within their regulatory powers. Both the employee and the EMS director resigned effective May 15, 2014 and May 17, 2014 respectively. To assure that timesheet calculations are accurate and overtime hours are properly recorded, we recommend that Hardin County EMS implement strong internal controls that include all timesheets being approved by a supervisor. The use of manual timesheets was discontinued and the Hardin County EMS installed Time Clock Plus after fiscal year ended June 30, 2014.

County Judge/Executive Harry L. Berry's Response: To assure accuracy of time worked within EMS and other departments, the county implemented the use of automated time clocks within large departments. All timesheets are also approved by the appropriate supervisor. Additional training of payroll processing personnel is ongoing.

HARDIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Internal Control - Material Weaknesses (Continued)

2014-04 The Jail Commissary Lacks Adequate Segregation of Duties Over Receipts and Expenditures

Strong internal controls dictate no one employee should have control over every aspect of a transaction process. The Bookkeeper makes the deposits, signs most checks, makes entries into the accounting system, and performs bank reconciliations. The result of one person performing all of these duties increases the likelihood that errors or fraud could occur and go undetected by the internal control system. If segregating duties is not possible, the Jailer should implement compensating controls to reduce the risk. Such compensating controls could consist of the Jailer reviewing bank reconciliations and monthly reports, comparing the book balance to the bank balance and looking for unusual reconciling items. Additionally, the Jailer could periodically do surprise cash counts of the deposit to ensure that all funds are correctly accounted for properly.

County Jailer Danny Allen's Response: We have short office staff; we have changed policies to correct.

County Judge/Executive Harry L. Berry's Response: Duties have been segregated to allow controls in the form of Jailer and/or Deputy Jailer-Major approving daily deposits prepared by the Jail Administration/Director. Other administrative staff will deliver prepared deposits to the bank. The Jailer, Deputy Jailer-Major, and Administrative Community Service Director are authorized to sign checks prepared by the Jail Administration/Director.

Internal Control - Significant Deficiencies

None

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit

None

Section IV: Summary Schedule of Prior Audit Findings (FEDERAL FINDINGS ONLY)

None

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

HARDIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

HARDIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

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



Harry L. Berry
County Judge/Executive



Lisa Pearman
County Treasurer

