

HARDIN COUNTY, KENTUCKY

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF HARDIN COUNTY, KENTUCKY

For The Fiscal Year Ended
June 30, 2016

Stiles, Carter & Associates, CPAs, PSC, has completed the audit of Hardin County, Kentucky for the fiscal year ended June 30, 2016.

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

Financial Condition:

The County had net position of \$236,276,792 as of June 30, 2016. The County had unrestricted net position of (\$9,990,913) in its governmental activities as of June 30, 2016, with total net position of \$64,574,209. In its business-type activities, total net cash and cash equivalents were \$51,843,787 with total net position of \$171,702,583. The County's discretely presented component unit had net position of \$488,417 as of June 30, 2016. The discretely presented component unit had net cash, cash equivalents and investments of \$693,965. The County's total debt principal as of June 30, 2016, was \$67,711,375 with \$2,808,590 due within the next year.

Deposits:

The County and component units had \$67,038,785 of deposits that were exposed to custodial credit risk at June 30, 2016. This risk was mitigated through the use of collateral held by the pledging financial institutions.

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INDEPENDENT AUDITOR'S REPORT

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

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 units, each major fund, and the aggregate remaining fund information of Hardin County, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County'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 is a blended component unit, and 93 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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, based on our audit and the report of other auditors, 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 units, each major fund, and the aggregate remaining fund information of Hardin County, Kentucky, as of June 30, 2016, 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.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2016, the County adopted Governmental Accounting Standards Board Statement 72, *Fair Value Measurement and Application* and Statement 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 14, budgetary comparison information on pages 81 to 87 and pension information on pages 88 to 94 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 and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate 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 and individual nonmajor fund financial statements 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 December 20, 2016, 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.

Stiles, Carter & Associates

Certified Public Accountants
Elizabethtown Kentucky
December 20, 2016

HARDIN COUNTY OFFICIALS

Fiscal Year Ended June 30, 2016

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
Debbie Donnelly	County Clerk
Loretta Crady	Circuit Court Clerk
John Ward	Sheriff
Danny Hutcherson	Property Valuation Administrator
William Lee	Coroner

Appointed Personnel:

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

REQUIRED SUPPLEMENTARY INFORMATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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, 2016. 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 and deferred outflows of the County exceeded its liabilities and deferred inflows at June 30, 2016, by \$236.3 million. This amount includes \$161.5 million related to Hardin Memorial Hospital. Of this amount, \$64.6 million may be used to meet the County's ongoing obligations to its citizens and creditors; the ending unrestricted net position of government activities was (\$10) million; this is primarily the result of the effect on government activities for the CERS pension of (\$17.1) million and \$74.4 million is related to Hardin Memorial Hospital.
- The County's total net position increased by \$9.9 million.
- At June 30, 2016, the County's governmental funds reported combined ending fund balances of \$7.9 million. Of this amount, \$4.6 million was available for spending at the government's discretion.
- At June 30, 2016, fund balance for the General Fund was \$4.58 million, which is approximately 23% of total General Fund annual expenditures and transfers out.
- The County's total long-term obligations at June 30, 2016, were \$131.5 million. Obligations related to Hardin County Government were \$40 million comprised of \$18.9 million for the CERS Pension Plan due to GASB Statement 68, \$5.3 million for landfill closure and postclosure and \$15.8 million for debt obligations. Also, obligations related to the Glendale industrial property was \$10.6 million and Hardin Memorial Hospital was \$80.9 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.

The statement of net position presents information on all of the County's assets and deferred outflows, liabilities and deferred inflows, 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 15 - 16 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 Commissary 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 17 - 26 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 27 – 80 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 \$236.3 million as of June 30, 2016.

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, 2016 and 2015

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 12,504,507	\$ 12,498,555	\$ 91,688,480	\$ 144,415,872	\$ 104,192,987	\$ 156,914,427
Capital assets	97,312,335	98,685,343	191,869,653	127,840,237	289,181,988	226,525,580
Total Assets	109,816,842	111,183,898	283,558,133	272,256,109	393,374,975	383,440,007
Deferred Outflows of Resources	2,833,247	2,096,202	13,158,396	3,654,546	15,991,643	5,750,748
Long-term liabilities	42,887,141	39,136,243	88,641,914	78,024,310	131,529,055	117,160,553
Other liabilities	3,940,585	2,290,037	33,126,538	35,850,897	37,067,123	38,140,934
Total Liabilities	46,827,726	41,426,280	121,768,452	113,875,207	168,596,178	155,301,487
Deferred Inflows of Resources	1,248,154	1,539,780	3,245,494	5,971,206	4,493,648	7,510,986
Net Position:						
Net investment in capital assets	72,923,746	74,503,758	92,508,995	94,139,333	165,432,741	168,643,091
Restricted	1,641,376	1,633,289	4,606,062	5,952,630	6,247,438	7,585,919
Unrestricted	(9,990,913)	(5,823,007)	74,587,526	55,972,279	64,596,613	50,149,272
Total Net Position	\$ 64,574,209	\$ 70,314,040	\$ 171,702,583	\$ 156,064,242	\$ 236,276,792	\$ 226,378,282

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 (15%) of total governmental net position. This negative amount is a result of the adoption of GASB 68. Restricted net position, those restricted mainly for special purposes, comprise 3% of total governmental net position. Net investment in capital assets comprises 113% 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 43% of total business-type net position. Restricted net position, those restricted mainly for capital projects and debt service comprise 3% of total business-type net position. Net investment in business-type capital assets comprises 54% of total business-type net position.

Governmental Activities

General government comprises 24%, protection to persons and property comprises 40%, general health and sanitation comprises 19%, social services comprises .3%, recreation and culture comprises 3%, and roads comprises 12%, of governmental program expenses for a total of 98.3% of general government expenses. The remaining expense for interest accounts for the remaining 1.7% of total governmental activities expense.

(Table 2)
Changes in Net Position
Years Ended June 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
REVENUES:						
Program revenues:						
Charges for services	\$ 12,053,708	\$ 10,133,533	\$ 268,551,586	\$ 269,521,417	\$ 310,605,294	\$ 279,654,950
Operating grants and contributions	2,546,043	2,541,635	47,784	49,805	2,593,827	2,591,440
Capital grants and contributions	7,221,634	4,731,026	-	-	7,221,634	4,731,026
General revenues:						
Property taxes	6,169,058	6,065,986	-	-	6,169,058	6,065,986
Motor vehicle tax	767,696	738,335	-	-	767,696	738,335
Other taxes	1,065,924	1,035,431	-	-	1,065,924	1,035,431
Excess fees	1,028,069	1,839,571	-	-	1,028,069	1,839,571
Interest and investment earnings	50,714	119,149	970,295	752,066	1,021,009	\$71,215
Gain on disposal of capital assets	8,149	-	-	-	8,149	-
Donations	22,135	6,861	-	-	22,135	6,861
Noncapital contributions	-	-	370,920	143,285	370,920	143,285
Miscellaneous	871,201	751,402	551	11,166	871,752	762,568
Total revenues	31,804,331	27,962,929	299,941,136	270,477,739	331,745,467	298,440,668
EXPENSES:						
Program Activities						
Primary Government:						
General government	9,123,786	4,454,271	-	-	9,123,786	4,454,271
Protection to persons and property	15,097,132	13,725,685	-	-	15,097,132	13,725,685
General health and sanitation	7,164,234	3,042,972	-	-	7,164,234	3,042,972
Social Services	118,183	111,652	-	-	118,183	111,652
Recreation and culture	1,175,849	836,296	-	-	1,175,849	836,296
Roads	4,450,390	5,313,931	-	-	4,450,390	5,313,931
Interest on long-term debt	427,588	444,911	-	-	427,588	444,911
Capital projects	-	-	-	-	-	-
Business-type Activities:						
Solid Waste	-	-	7,444,329	7,091,284	7,444,329	7,091,284
Hardin Memorial Hospital	-	-	276,124,061	244,295,802	276,124,061	244,295,802
Jail Commissary	-	-	721,405	612,089	721,405	612,089
Total expenses	37,557,162	27,929,718	284,289,795	251,999,175	321,846,957	279,928,893
Change in net position before transfers	(5,752,831)	33,211	15,651,341	18,478,564	9,898,510	18,511,775
Transfers	13,000	(2,597,256)	(13,000)	2,597,256	-	-
Change in net position	\$ (5,739,831)	\$ (2,564,045)	\$ 15,638,341	\$ 21,075,820	\$ 9,898,510	\$ 18,511,775

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	
	2016	2015	2016	2015
	General government	\$ 9,123,786	\$ 4,454,271	\$ (2,870,514)
Protection to persons and property	15,097,132	13,725,685	(3,497,610)	(3,782,584)
General health and sanitation	7,164,234	3,042,972	(7,057,284)	(2,949,349)
Social Services	118,183	111,652	(85,422)	(91,004)
Recreation and culture	1,175,849	836,296	(1,082,063)	(740,092)
Roads	4,450,390	5,313,931	(719,680)	(791,937)
Interest on long-term debt	427,588	444,911	(423,204)	(440,967)
Total expenses	\$ 37,557,162	\$ 27,929,718	\$ (15,735,777)	\$ (10,523,524)

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 \$298.6 million and expenses of \$284.3 million for fiscal year 2016. Of the revenues, \$298.5 million was charges for services, \$48 thousand was capital grants, \$970 thousand was investment earnings and \$371 thousand was noncapital contributions. Transfers were made from the business-type activities to the government activities in the net amount of \$13 thousand. The County will continue to monitor the charges and costs of these activities and adjust them as appropriate.

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, 2016, are estimated at \$7,492,601 and \$1,475,020 based on landfill capacity used to date. The current portion of estimated costs totals \$5,332,466. 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, 2016 was \$2,924,880. This is the amount reflected as restricted net position in the accompanying financial statements. As of January 5, 2016, approximately 59% of the landfill airspace had been used. The estimated remaining landfill life is 19.6 years as currently permitted.

The County's Funds

Information about the County's major funds starts on page 17. All governmental funds had total revenues and other financing sources of \$35.5 million and expenditures and other financing uses of \$37.5 million. The County has four major governmental funds: 1) General Fund; 2) Road Fund; and 3) Jail Fund; 4) Capital Improvement Fund.

The General Fund is the chief operating fund of the County. At June 30, 2016, unassigned fund balance of the General Fund was \$4.6 million. The fund balance of the County's General Fund decreased by \$1.8 million during the fiscal year.

The Road Fund is the fund related to County road and bridge construction and maintenance. The Road Fund had \$1.24 million in fund balance at June 30, 2016. The fund balance of the County's Road Fund increased by \$185 thousand during the fiscal year. Expenditures for road projects were \$2.9 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, 2016, of \$396 thousand. That is a increase in fund balance of \$115 thousand over the previous fiscal year. The Jail Fund received \$532 thousand of charges for services, primarily from charges to other entities for housing prisoners. The General Fund was required to contribute \$2.5 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, 2016, of \$0 dollars.

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 \$17.1 million with actual amounts of \$16.1 million. Budgeted expenditures of \$15 million compare with actual expenditures of \$14.5 million.

Capital Assets and Debt Administration

Capital Assets. At the end of fiscal year 2016 and 2015, the County had \$224.1 and \$226.5 million invested in a variety of capital assets, as reflected in the following table, and \$97.3 and \$98.7 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 5 to the financial statements.

(Table 4)
Capital Assets at June 30, 2016 and 2015
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land	\$ 18,731,488	\$ 19,425,088	\$ 12,000,254	\$ 11,928,437	\$ 30,731,742	\$ 31,353,525
Land improvements	-	-	1,470,616	1,725,540	1,470,616	1,725,540
Buildings	13,914,135	15,816,010	60,124,393	61,824,327	74,038,528	77,640,537
Landfill	-	-	12,941,052	13,863,727	12,941,052	13,863,727
Infrastructure	43,589,560	44,601,718	-	-	43,589,560	44,601,718
Equipment and books	3,151,527	2,292,492	-	-	3,151,527	2,292,492
Equipment	-	-	32,911,584	35,710,889	32,911,584	35,710,889
Vehicles	2,851,300	2,846,483	137,700	75,442	2,989,000	2,921,925
Total	82,238,010	84,981,791	119,585,599	125,128,562	201,823,609	210,110,353
Construction in progress	15,074,325	13,703,552	7,231,092	2,711,675	22,305,417	16,415,227
Total	\$ 97,312,335	\$ 98,685,343	\$ 126,816,691	\$ 127,840,237	\$ 224,129,026	\$ 226,525,580

The following reconciliation summarizes the change in Capital Assets for the years ended June 30, 2016 and 2015:

(Table 5)
Change in Capital Assets
Years Ended June 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Beginning balance	\$ 98,685,343	\$ 89,422,295	\$ 127,840,237	\$ 123,333,183	\$226,525,580	\$ 212,755,478
Additions	5,807,140	13,068,176	12,042,927	37,728,277	17,850,067	50,796,453
Retirements/Transfers	(3,381,529)	(93,573)	(726,051)	(20,935,605)	(4,107,580)	(21,029,178)
Depreciation	(3,798,619)	(3,711,555)	(12,340,422)	(12,285,618)	(16,139,041)	(15,997,173)
Ending balance	<u>\$ 97,312,335</u>	<u>\$ 98,685,343</u>	<u>\$ 126,816,691</u>	<u>\$ 127,840,237</u>	<u>\$224,129,026</u>	<u>\$ 226,525,580</u>

At June 30, 2016 and 2015, the County had \$67.7 and \$69.3 million in bonds, notes and financing obligations outstanding (net of unamortized premium discount). A total of \$3.4 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, 2016 and 2015

	2016	2015
Governmental Activities:		
Bonds	\$ 12,330,000	\$12,590,000
Add: unamortized bond premium	95,218	100,858
Less: unamortized bond discount	(3,015)	(3,445)
Financing obligations	<u>11,966,386</u>	<u>11,494,172</u>
Sub-total	<u>24,388,589</u>	<u>24,181,585</u>
Business-type Activities:		
Solid Waste Fund	3,455,000	4,977,550
Hardin Memorial Hospital	39,718,358	39,948,299
Add: unamortized bond premium	150,163	160,338
Less: unamortized bond discount	(735)	(1,472)
Sub-total	<u>43,322,786</u>	<u>45,084,715</u>
Total	<u>\$ 67,711,375</u>	<u>\$69,266,300</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 2017 fiscal year budget:

- The 2017 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 2017 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 in the County Detention Center, 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.
- Construction of a \$13.7 million new government building that began in FY 2014 was completed early in FY 2016. Funding for constructing the facility was derived from the bonding of \$11 million 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.
- Road Department expenditures on county road maintenance will continue to be budgeted at \$400,000 less than during FY 2015 due to reductions in the motor fuels tax by the Kentucky General Assembly in the spring of 2015. There is concern of additional reductions in state funding for county road maintenance as fuel prices decrease. Decreases in fuel prices will 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.
- Construction of Hardin County Contained Landfill Phase 3B begins in FY 2017. Funding for construction is derived from lease proceeds of 5.5 million.

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.

BASIC FINANCIAL STATEMENTS

ASSETS	Primary Government			Component Unit Hardin County Planning and Development Commission
	Governmental Activities	Business- Type Activities	Total	
Current Assets				
Cash and cash equivalents	\$ 4,655,234	\$ 48,916,247	\$ 53,571,481	517,509
Restricted cash	-	2,660	2,660	39,580
Assets whose use is limited	-	1,519,048	1,519,048	-
Receivables	6,019,598	217,158	6,236,756	-
Patient accounts receivable, net of estimated uncollectibles of \$17,063,849	-	31,627,175	31,627,175	-
Inventories	333,925	6,413,593	6,747,518	-
Other	-	2,992,599	2,992,599	-
Restricted investments	-	-	-	136,876
Investments	1,495,750	-	1,495,750	-
Total Current Assets	12,504,507	91,688,480	104,192,987	693,965
Noncurrent Assets				
Restricted cash and cash equivalents	-	2,924,880	2,924,880	-
Assets whose use is limited	-	52,346,305	52,346,305	-
Other	-	9,781,777	9,781,777	-
Non-depreciable capital assets	33,805,813	19,231,346	53,037,159	-
Depreciable capital assets, net of accumulated depreciation	63,506,522	107,585,345	171,091,867	4,628
Total Noncurrent Assets	97,312,335	191,869,653	289,181,988	4,628
Total Assets	109,816,842	283,558,133	393,374,975	698,593
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on debt refundings	-	23,073	23,073	-
Pensions	2,833,247	13,135,323	15,968,570	-
Total Deferred Outflows of Resources	2,833,247	13,158,396	15,991,643	-
LIABILITIES				
Current Liabilities				
Accounts payable	2,474,847	10,589,616	13,064,463	3,074
Accrued liabilities	584,532	15,116,677	15,701,209	4,276
Estimated third-party payer settlements	-	4,406,352	4,406,352	-
Accrued interest payable	91,729	934,461	1,026,190	-
Unearned revenue	-	-	-	88,726
Developer advances	-	-	-	92,032
Compensated absences	60,319	-	60,319	22,068
Bond obligations	405,000	1,790,000	2,195,000	-
Financing obligations	324,158	289,432	613,590	-
Total Current Liabilities	3,940,585	33,126,538	37,067,123	210,176
Noncurrent Liabilities				
Bond obligations	12,017,203	41,214,428	53,231,631	-
Landfill closure and postclosure	-	5,332,466	5,332,466	-
Net pension liability	18,648,231	35,540,053	54,188,284	-
Other liabilities	-	6,526,041	6,526,041	-
Compensated absences	579,479	-	579,479	-
Financing obligations	11,642,228	28,926	11,671,154	-
Total Noncurrent Liabilities	42,887,141	88,641,914	131,529,055	-
Total Liabilities	46,827,726	121,768,452	168,596,178	210,176
DEFERRED INFLOWS OF RESOURCES				
Pensions	1,248,154	3,245,494	4,493,648	-
Total Deferred Inflows of Resources	1,248,154	3,245,494	4,493,648	-
NET POSITION				
Net investment in capital assets	72,923,746	92,508,995	165,432,741	4,628
Restricted for:				
Debt service - expendable	-	1,521,708	1,521,708	-
Permanent funds - non-expendable	804,526	-	804,526	-
Permanent funds - expendable	636,239	-	636,239	-
Grants	10	-	10	-
Library	200,601	-	200,601	-
Landfill closure and postclosure - non-expendable	-	2,924,880	2,924,880	-
Employee support program - expendable	-	19,807	19,807	-
Hardin Memorial Hospital Foundation - expendable	-	139,667	139,667	-
Unrestricted	(9,990,913)	74,587,526	64,596,613	483,789
Total Net Position	\$ 64,574,209	\$ 171,702,583	\$ 236,276,792	\$ 488,417

See accompanying notes to financial statements

HARDIN COUNTY, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			Component Unit Hardin County Planning and Development Commission
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government			
					Governmental Activities	Business- Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 9,123,786	\$ 1,758,380	\$ 347,701	\$ 4,147,191	\$ (2,870,514)	\$ -	\$ (2,870,514)	\$ -
Protection to persons and property	15,097,132	10,158,946	1,430,576	10,000	(3,497,610)	-	(3,497,610)	-
General health and sanitation	7,164,234	90,290	16,660	-	(7,057,284)	-	(7,057,284)	-
Social services	118,183	690	32,071	-	(85,422)	-	(85,422)	-
Recreation and culture	1,175,849	45,402	48,384	-	(1,082,063)	-	(1,082,063)	-
Roads	4,450,390	-	666,267	3,064,443	(719,680)	-	(719,680)	-
Interest on long-term debt	427,588	-	4,384	-	(423,204)	-	(423,204)	-
Total governmental activities	37,557,162	12,053,708	2,546,043	7,221,634	(15,735,777)	-	(15,735,777)	-
Business-type activities:								
Solid Waste	7,444,329	7,136,650	47,784	-	-	(259,895)	(259,895)	-
Hardin Memorial Hospital	276,124,061	290,505,859	-	-	-	14,381,798	14,381,798	-
Jail Commissary	721,405	909,077	-	-	-	187,672	187,672	-
Total business-type activities	284,289,795	298,551,586	47,784	-	-	14,309,575	14,309,575	-
Total primary government	\$ 321,846,957	\$ 310,605,294	\$ 2,593,827	\$ 7,221,634	(15,735,777)	14,309,575	(1,426,202)	-
Component unit:								
Hardin County Planning & Development	\$ 488,030	\$ 262,436	\$ 285,900	\$ -				\$ 60,306
General revenues:								
Taxes:								
Property taxes, levied for general purposes					6,169,058	-	6,169,058	-
Motor vehicle tax					767,696	-	767,696	-
Other taxes					1,065,924	-	1,065,924	-
Excess fees					1,028,069	-	1,028,069	-
Interest and investment earnings					50,714	970,295	1,021,009	561
Gain on disposal of capital assets					8,149	-	8,149	-
Donations					22,135	-	22,135	-
Noncapital contributions					-	370,920	370,920	-
Miscellaneous					871,201	551	871,752	-
Transfers					13,000	(13,000)	-	-
Total general revenues and transfers					9,995,946	1,328,766	11,324,712	60,867
Change in net position					(5,739,831)	15,638,341	9,898,510	60,867
Net position - beginning					70,314,040	156,064,242	226,378,282	427,550
Net position - ending					\$ 64,574,209	\$ 171,702,583	\$ 236,276,792	\$ 488,417

HARDIN COUNTY FISCAL COURT
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2016

	GENERAL FUND	ROAD FUND	JAIL FUND	CAPITAL IMPROVEMENTS FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and cash equivalents	\$ 3,783,529	\$ 353,628	\$ 214,726	\$ -	\$ 171,355	\$ 4,523,238
Receivables	1,462,051	612,643	466,840	-	1,890,044	4,431,578
Inventories	-	333,925	-	-	-	333,925
Investments	-	-	-	-	1,495,750	1,495,750
TOTAL ASSETS	\$ 5,245,580	\$ 1,300,196	\$ 681,566	\$ -	\$ 3,557,149	\$ 10,784,491
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 163,546	\$ 2,463	\$ 96,857	\$ -	\$ 1,893,422	\$ 2,156,288
Due to other funds	186,563	-	-	-	-	186,563
Accrued liabilities	317,665	55,611	188,905	-	22,351	584,532
TOTAL LIABILITIES	667,774	58,074	285,762	-	1,915,773	2,927,383
Fund Balances						
Nonspendable	-	333,925	-	-	804,526	1,138,451
Restricted	-	908,197	395,804	-	836,850	2,140,851
Unassigned	4,577,806	-	-	-	-	4,577,806
TOTAL FUND BALANCES	4,577,806	1,242,122	395,804	-	1,641,376	7,857,108
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,245,580	\$ 1,300,196	\$ 681,566	\$ -	\$ 3,557,149	\$ 10,784,491

HARDIN COUNTY, KENTUCKY
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2016

Total fund balance per fund financial statements	\$ 7,857,108
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	97,312,335
Governmental funds do not record deferred outflows of resources for pensions but those are reported on the statement of net position as deferred outflows of resources.	2,833,247
Governmental funds do not record deferred inflows of resources for pensions but those are reported on the statement of net position as deferred inflows of resources.	(1,248,154)
Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	
Bonds	(12,422,203)
Financing obligations	(11,966,386)
Net pension	(18,648,231)
Accrued compensated absences	(639,798)
Accrued interest	(91,729)
Certain receivables are not available to pay current expenditures and are not recorded in the funds. The receivables are listed below.	
Ambulance receivables	1,512,378
Excess fees	75,642
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 position. Assets were \$318,559 and liabilities were \$318,559 for a net of \$0.	-
Net position for governmental activities	<u>\$ 64,574,209</u>

See accompanying notes to financial statements.

HARDIN COUNTY, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2016

	GENERAL FUND	ROAD FUND	JAIL FUND	CAPITAL IMPROVEMENTS FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Taxes	\$ 8,002,083	\$ -	\$ -	\$ -	\$ -	\$ 8,002,083
Excess fees	1,272,504	-	-	-	-	1,272,504
Licenses and permits	195,365	13,970	-	-	-	209,335
Intergovernmental	759,125	2,866,755	4,448,659	-	4,195,575	12,270,114
Charges for services	5,615,685	-	532,496	-	45,402	6,193,583
Miscellaneous revenue	51,201	83,273	129,819	-	14,239	278,532
Investment earnings	14,527	5,055	1,223	164	27,371	48,340
TOTAL REVENUES	15,910,490	2,969,053	5,112,197	164	4,282,587	28,274,491
EXPENDITURES						
General government	3,961,099	6,184	-	-	4,149,817	8,117,100
Protection to persons and property	7,716,080	-	5,906,991	-	-	13,623,071
General health and sanitation	770,631	86,347	-	-	-	856,978
Social services	118,183	-	-	-	-	118,183
Recreation and culture	10,600	-	-	-	918,479	929,079
Roads	-	2,364,916	-	-	-	2,364,916
Debt service	479,012	-	-	-	647,438	1,126,450
Capital projects	565	-	-	1,560,649	-	1,561,214
Administration	990,466	396,287	1,326,172	-	-	2,712,925
TOTAL EXPENDITURES	14,046,636	2,853,734	7,233,163	1,560,649	5,715,734	31,409,916
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,863,854	115,319	(2,120,966)	(1,560,485)	(1,433,147)	(3,135,425)
OTHER FINANCING SOURCES (USES):						
Proceeds from disposal of equipment	304,299	-	-	-	-	304,299
Proceeds from financing obligations	904,801	-	-	-	-	904,801
Insurance proceeds	186,585	66,894	-	-	-	253,479
Transfers in	736,196	3,009	2,521,370	1,024,924	1,488,721	5,774,220
Transfers out	(5,769,192)	-	(285,675)	-	(47,487)	(6,102,354)
TOTAL OTHER FINANCING SOURCES (USES)	(3,637,311)	69,903	2,235,695	1,024,924	1,441,234	1,134,445
CHANGE IN FUND BALANCES	(1,773,457)	185,222	114,729	(535,561)	8,087	(2,000,980)
FUND BALANCES, July 1, 2015	6,351,263	1,056,900	281,075	535,561	1,633,289	9,858,088
FUND BALANCES, June 30, 2016	\$ 4,577,806	\$ 1,242,122	\$ 395,804	\$ -	\$ 1,641,376	\$ 7,857,108

HARDIN COUNTY, KENTUCKY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2016

Net change in total fund balances per fund financial statements	\$ (2,000,980)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives.	
Capital outlay	3,759,855
Roads received into system	863,955
Capital assets purchased by Sheriff owned by Fiscal Court	166,055
Depreciation expense	(3,798,619)
Capital assets disposed of, net book value	(2,364,254)
The proceeds for financing obligations current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.	(904,801)
Bond and financing obligation payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position:	
Bonds	260,000
Financing obligations	432,367
The difference between actuarial pension contributions to CERS and actual contributions made are recorded as adjustments in the statement of activities.	(2,595,931)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	(6,495)
Internal Service Funds are used by management to charge the cost of health insurance to individual funds. the net revenues (expenses) are reported with governmental activities.	(41,306)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>490,323</u>
Change in net position of governmental activities	<u>\$ (5,739,831)</u>

See accompanying notes to financial statements.

HARDIN COUNTY, KENTUCKY
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

ASSETS	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUNDS			TOTALS	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	SOLID WASTE FUND	HARDIN MEMORIAL HOSPITAL	JAIL COMMISSARY FUND		
CURRENT ASSETS:					
Cash and cash equivalents	\$ 100,660	\$ 48,530,533	\$ 285,054	\$ 48,916,247	\$ 131,996
Assets whose use is limited	-	1,519,048	-	1,519,048	-
Restricted cash	2,660	-	-	2,660	-
Due from other funds	-	-	-	-	186,563
Receivables	182,513	-	34,645	217,158	-
Patient accounts receivable - net of estimated uncollectibles of \$17,063,849	-	31,627,175	-	31,627,175	-
Estimated third-party payer settlements	-	-	-	-	-
Inventories	-	6,413,593	-	6,413,593	-
Other	-	2,992,599	-	2,992,599	-
TOTAL CURRENT ASSETS	285,833	91,082,948	319,699	91,688,480	318,559
NONCURRENT ASSETS:					
Restricted cash	2,924,880	-	-	2,924,880	-
Assets whose use is limited	-	52,346,305	-	52,346,305	-
Other assets	-	9,781,777	-	9,781,777	-
Non-depreciable capital assets	2,777,000	16,454,346	-	19,231,346	-
Depreciable capital assets, net of accumulated depreciation	13,104,166	94,409,568	71,611	107,585,345	-
TOTAL NONCURRENT ASSETS	18,806,046	172,991,996	71,611	191,869,653	-
TOTAL ASSETS	19,091,879	264,074,944	391,310	283,558,133	318,559
DEFERRED OUTFLOWS OF RESOURCES					
Deferred amount on debt refundings	23,073	-	-	23,073	-
Pensions	35,978	13,099,345	-	13,135,323	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	59,051	13,099,345	-	13,158,396	-

See accompanying notes to financial statements.

HARDIN COUNTY FISCAL COURT
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016
(CONTINUED)

LIABILITIES	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUNDS			TOTALS	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	SOLID WASTE FUND	HARDIN MEMORIAL HOSPITAL	JAIL COMMISSARY FUND		
CURRENT LIABILITIES:					
Accounts payable	241,761	10,299,738	48,117	10,589,616	318,559
Accrued liabilities - primarily for salaries, wages and benefits	8,953	15,107,724	-	15,116,677	-
Estimated third-party payer settlements	-	4,406,352	-	4,406,352	-
Bonds payable, current portion	1,245,000	545,000	-	1,790,000	-
Financing obligations payable, current portion	-	289,432	-	289,432	-
Accrued interest	11,911	922,550	-	934,461	-
TOTAL CURRENT LIABILITIES	1,507,625	31,570,796	48,117	33,126,538	318,559
NONCURRENT LIABILITIES:					
Bonds payable	2,209,265	39,005,163	-	41,214,428	-
Financing obligations payable	-	28,926	-	28,926	-
Other	-	6,526,041	-	6,526,041	-
Net pension liability	227,785	35,312,268	-	35,540,053	-
Landfill closure and postclosure payable	5,332,466	-	-	5,332,466	-
TOTAL NONCURRENT LIABILITIES	7,769,516	80,872,398	-	88,641,914	-
TOTAL LIABILITIES	9,277,141	112,443,194	48,117	121,768,452	318,559
DEFERRED INFLOWS OF RESOURCES					
Pensions	12,550	3,232,944	-	3,245,494	-
TOTAL DEFERRED INFLOWS OF RESOURCES	12,550	3,232,944	-	3,245,494	-
NET POSITION					
Net investment in capital assets	7,117,508	85,391,487	-	92,508,995	-
Restricted for insurance claims (expendable)	-	-	-	-	-
Restricted for debt service (expendable)	2,660	1,519,048	-	1,521,708	-
Restricted for landfill closure and postclosure (non-expendable)	2,924,880	-	-	2,924,880	-
Restricted for employee support program (expendable)	-	19,807	-	19,807	-
Restricted for Hardin Memorial Hospital Foundation (expendable)	-	139,667	-	139,667	-
Unrestricted	(183,809)	74,428,142	343,193	74,587,526	-
TOTAL NET POSITION	\$ 9,861,239	\$ 161,498,151	\$ 343,193	\$ 171,702,583	\$ -

See accompanying notes to financial statements.

HARDIN COUNTY, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2016

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUNDS			TOTALS	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	SOLID WASTE FUND	HARDIN MEMORIAL HOSPITAL	JAIL COMMISSARY FUND		
OPERATING REVENUES:					
Charges for services	\$ 6,881,540	\$ -	\$ -	\$ 6,881,540	\$ 1,431,767
Stop loss	-	-	-	-	82,140
Licenses and permits	140,883	-	-	140,883	-
Net patient service revenue, net of provision for uncollectible accounts of \$22,495,047	-	287,427,543	-	287,427,543	-
Other operating revenue	162,011	3,078,316	-	3,240,327	-
Jail canteen	-	-	909,077	909,077	-
TOTAL OPERATING REVENUE	7,184,434	290,505,859	909,077	298,599,370	1,513,907
OPERATING EXPENSES:					
General government	53,487	-	-	53,487	-
General health and sanitation	6,190,372	-	-	6,190,372	-
Salaries and wages - including employee benefits	-	152,928,838	-	152,928,838	-
Supplies	-	53,900,424	-	53,900,424	-
Professional services	-	34,476,035	-	34,476,035	-
Administrative and other	-	18,644,796	-	18,644,796	-
Provider tax	-	3,262,105	-	3,262,105	-
Depreciation and amortization	1,008,731	11,544,223	12,706	12,565,660	-
Insurance claims and expenses	-	-	-	-	1,896,347
Jail canteen cost of sales	-	-	708,699	708,699	-
Other	-	5,956	-	5,956	-
TOTAL OPERATING EXPENSES	7,252,590	274,762,377	721,405	282,736,372	1,896,347
INCOME (LOSS) FROM OPERATIONS	(68,156)	15,743,482	187,672	15,862,998	(382,440)
NON-OPERATING REVENUE (EXPENSE):					
Investment income	17,046	953,249	-	970,295	-
Insurance proceeds	551	-	-	551	-
Interest expense	(184,870)	(1,361,684)	-	(1,546,554)	-
Loss on capital asset disposals	(6,869)	-	-	(6,869)	-
Noncapital contributions	-	370,920	-	370,920	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(174,142)	(37,515)	-	(211,657)	-
NET INCOME (LOSS) BEFORE TRANSFERS	(242,298)	15,705,967	187,672	15,651,341	(382,440)
Transfers in	640,000	-	-	640,000	341,134
Transfers out	(45,000)	(518,000)	(90,000)	(653,000)	-
CHANGE IN NET POSITION	352,702	15,187,967	97,672	15,638,341	(41,306)
NET POSITION, July 1, 2015	9,508,537	146,310,184	245,521	156,064,242	41,306
NET POSITION, June 30, 2016	\$ 9,861,239	\$ 161,498,151	\$ 343,193	\$ 171,702,583	\$ -

See accompanying notes to financial statements

HARDIN COUNTY, KENTUCKY
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2016

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	SOLID WASTE FUND	HARDIN MEMORIAL HOSPITAL	JAIL COMMISSARY FUND	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers and users	\$ 6,865,165	\$ -	\$ 927,078	\$ 7,792,243	\$ 1,431,767.00
Cash received from patient service revenues - net	-	286,425,594	-	286,425,594	-
Cash received for other receipts - net	302,894	(185,967)	-	116,927	82,140
Cash payments to vendors and contractors	(5,688,606)	(109,057,317)	-	(114,745,923)	-
Cash payments to employees	(132,151)	(155,951,733)	-	(156,083,884)	-
Cash payments for insurance claims	-	-	-	-	(1,795,116)
Cash payments for operating expenses	-	-	(720,420)	(720,420)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,347,302	21,230,577	206,658	22,784,537	(281,209)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Other	(1,762)	370,920	-	369,158	-
Transfers from other funds	640,000	-	-	640,000	341,134
Transfers to other funds	(45,000)	(518,000)	(90,000)	(653,000)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	593,238	(147,080)	(90,000)	356,158	341,134
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(164,183)	(11,021,400)	(63,599)	(11,249,182)	-
Principal paid on long-term obligations	(1,522,550)	(279,528)	-	(1,802,078)	-
Interest paid on long-term obligations	(163,106)	(1,361,684)	-	(1,524,790)	-
Proceeds from sale of property and equipment	-	1,000	-	1,000	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,849,839)	(12,661,612)	(63,599)	(14,575,050)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Sales and redemptions of investments	-	54,695,193	-	54,695,193	-
Purchases of investments	-	(52,828,637)	-	(52,828,637)	-
Interest and dividends on investments	17,046	837,731	-	854,777	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	17,046	2,704,287	-	2,721,333	-
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	107,747	11,126,172	53,059	11,286,978	59,925
CASH AND RESTRICTED CASH, July 1, 2015	2,920,453	37,404,361	231,995	40,556,809	72,071
CASH AND RESTRICTED CASH, June 30, 2016	\$ 3,028,200	\$ 48,530,533	\$ 285,054	\$ 51,843,787	\$ 131,996
SUPPLEMENTAL CASH FLOWS INFORMATION					
Financing obligations incurred for capital assets	\$ -	\$ 49,587	\$ -	\$ 49,587	\$ -
Capital assets in accounts payable	\$ -	\$ 111,015	\$ -	\$ 111,015	\$ -
NON-CASH TRANSACTIONS					
Pensions	\$ 53,487	\$ -	\$ -	\$ 53,487	\$ -

See accompanying notes to financial statements

HARDIN COUNTY, KENTUCKY
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2016
 (CONTINUED)

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	SOLID WASTE FUND	HARDIN MEMORIAL HOSPITAL	JAIL COMMISSARY FUND	TOTALS	
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Income (loss) from operations	\$ (68,156)	\$ 15,743,482	\$ 187,672	\$ 15,862,998	\$ (382,440)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation and amortization	1,008,731	11,544,223	12,706	12,565,660	-
Provision for uncollectible accounts	-	22,495,047	-	22,495,047	-
GASB 68 pension	53,487	391,603	-	445,090	-
Loss on sale of capital assets	-	5,956	-	5,956	-
Change in assets and liabilities:					
Patient accounts receivable	-	(23,680,906)	-	(23,680,906)	-
Receivables	(16,375)	-	18,001	1,626	-
Due from other funds	-	-	-	-	(133,612)
Inventories	-	(587,623)	-	(587,623)	-
Other assets	-	(1,253,187)	-	(1,253,187)	-
Accounts payable	136,635	(3,611,928)	(11,721)	(3,487,014)	234,843
Accrued liabilities	1,306	-	-	1,306	-
Estimated third-party payer settlements	-	183,910	-	183,910	-
Landfill closure and postclosure	231,674	-	-	231,674	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,347,302	\$ 21,230,577	\$ 206,658	\$ 22,784,537	\$ (281,209)

See accompanying notes to financial statements

HARDIN COUNTY, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

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	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 18,633</u>
Total Assets	<u><u>\$ 18,633</u></u>
Liabilities	
Assets held in custody for others	<u>\$ 18,633</u>
Total Liabilities	<u><u>\$ 18,633</u></u>

See accompanying notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of Hardin County have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units by the Governmental Accounting Standards Board ("GASB").

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 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 their 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. Based upon the criteria stated in GASB 14 and GASB 39, management has included the Hardin County Public Library (Library Fund) and Hardin Memorial Hospital as part of the reporting entity as blended component units. Management has also included the Hardin County Planning and Development Commission as a discretely presented component unit.

Blended Component Units

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 COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

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 Card Center, LLC (Carefirst), Hardin Professional Services, LLC (HPS) and Workwell, LLC (Workwell) (collectively, Hardin Memorial Hospital). The Hospital is an acute care hospital located in Elizabethtown, Kentucky and is an unincorporated unit of the Hardin County, Kentucky. Pursuant to Internal Revenue Service Code Section 115, the Hospital is exempt from federal income taxes. The Hardin Memorial Hospital Foundation, Inc., was organized to support, enhance and expand the activities of Hardin Memorial Hospital. Hardin Memorial Hospital and the Hardin Memorial Hospital Foundation, Inc. are under the common control of the same Board of Trustees, the Hardin County Fiscal Court. The Foundation, Carefirst, WPS 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. All material inter-organization balances and transactions 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, 270-737-1212.

Discretely Presented Component Unit

The component unit's column in the government-wide financial statements includes the data of the following organization. It is reported on the Statement of Net Position and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's 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 presented discretely within Hardin County's financial statements. The Planning Commission is separately audited and a copy of the independent auditor's report can be obtained from the Commission, 150 North Provident Way, 2nd Floor Suite 225, Elizabethtown, Kentucky 42701, 270-769-5479.

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

D. Government-wide 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. Fiduciary funds are also excluded from the government-wide financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred. All assets and liabilities of the primary government are included. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financials.

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position is reported in three categories: 1) net investment in capital assets - 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 position - 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 position - net position that does not meet the definition of restricted net position or net investment in capital assets.

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expense of a given function is 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 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. Revenues not classified as program revenues are presented as general revenues. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the County first applies restricted resources.

E. Fund Financial Statements

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.

Governmental Funds

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

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

(Continued next page)

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Fund Financial Statements (Continued)

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 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 licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenditures 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 revenues 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 Grants Fund, Federal Grants Fund, Library Fund, Debt Service Fund, Fife Fund, Pauline Walker and Powell Duff Fund, and Pauline Walker and Powell Duff Library Trust Fund.

Special Revenue Funds:

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

State Grants Fund - This fund is for the administration of state grants received by the County.

Federal Grants Fund - This fund is for the administration of federal grants received by the County.

Library Fund – This fund is a blended component unit. See note 1-B for additional information.

Debt Service Fund:

The debt service fund accounts for the accumulation of resources for, and the payment of general long-term debt principal and interest.

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Fund Financial Statements (Continued)

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/or maintenance of the public county roads and bridges of Hardin County;
- 2) to aid in the construction and/or maintenance of a 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 bequest "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.

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Fund Financial Statements (Continued)

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.
- 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 trust 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.

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 Account - 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 2016 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.

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Fund Financial Statements (Continued)

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.

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 measurement 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 a proprietary fund's principal ongoing operations. The principal operating revenues of all the County's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The primary government reports the following major proprietary funds:

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

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Fund Financial Statements (Continued)

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 is an acute care hospital located in Elizabethtown, Kentucky. The Hospital defines operating activities, as reported on the Statement of Revenues, Expenses and Changes In 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 expenses are from exchange transactions. Certain revenues relied upon for operations, such as gifts and investment income, are recorded as non-operating revenues.

Non-Major Proprietary Funds

Jail Commissary – The commissary operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Fund.

Internal Service Funds – The County's Internal Service Fund is the Employee Insurance Fund. 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.

F. Presentation of Component Unit

Presentation of the underlying fund types of the Hardin County Planning and Development Commission, a major discretely presented component unit of Hardin County Fiscal Court, is available from the Planning Commission's separately issued financial statements. During the fiscal year ended June 30, 2016, Hardin County, Kentucky provided operating funds of \$285,900 to the Hardin County Planning and Development Commission.

G. Cash Deposits and Investments

Cash and cash equivalents include amounts on hand, demand deposits, certificates of deposit, and short-term investments with maturities of three months or less when purchased.

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).

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Cash Deposits and Investments (Continued)

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 72, *Fair Value Measurement and Application*, investments are reported at fair value based on quoted market values. Investments in external investment pools are also covered under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Certain cash and investment amounts are classified on the statement of net position as restricted because applicable bond indentures or other legal provisions limit their use. Restricted cash and cash equivalents are included and used for their respective purposes.

H. Property Taxes

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) October 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. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable after the 60-day period, no additional accrual is made in the government-wide statements. Taxes levied to finance fiscal year 2016 were \$.109 per \$100 valuation for real property, \$.113 per \$100 valuation for business personal property and \$.115 per \$100 valuation for motor vehicles.

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

Hardin Memorial Hospital's, a blended component unit of Hardin County Fiscal Court, assets whose use is limited include U.S. Treasury and agency obligations and money market mutual funds, which are stated at fair value, and a guaranteed investment contract and certificates of deposit, which are stated at cost, which approximates fair value. Income from investments is reported as non-operating investment income. Interest is earned on the guaranteed investment contracts at rates of 2.55% for the Reserve Fund Account, at June 30, 2016

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 agreements. 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 time of acquisition and in non-negotiable certificates of deposit 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 and the net change for the year in the fair value of investments carried at fair value.

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Net Patient Service Revenue

The Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive 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. These 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 54 percent of net patient service revenue is from participation in the Medicare program and state-sponsored Medicaid programs for the year ended June 30, 2016. 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.

K. 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, such amounts are not reported as net patient service revenue. The Hospital provided charity care to patients amounting to approximately \$5,608,000 (based on the Hospital's normal charges foregone) for the year ended June 30, 2016.

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

L. Interfund Transactions

Hardin County, Kentucky has the following type of interfund transactions:

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 6. 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.

Interfund Balances – Balances between funds are for funds advanced to pay for obligations. Note that at the entity-wide level, the majority of interfund balances have been eliminated. Interfund balances between governmental activities and business-type activities have not been eliminated.

M. Inventory

Inventory for Hardin Memorial Hospital's, a blended component unit of Hardin County, Kentucky, consists 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 inventory is stated at the lower of cost 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 net position.

N. Capital Assets and Depreciation

Capital assets, which include land, construction in progress, land improvements, buildings, building improvements, landfill, equipment, books, vehicles, 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. Fund financial statements for governmental funds expense capital assets when purchased or constructed.

The policy of the primary government is to capitalize assets as noted in the table below. The primary government capitalizes all land. Component units establish their own capitalization policy and that policy may vary from that of the primary government. The primary government values fixed assets at historical cost. 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 of business-type assets is capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. Assets held under capital leases are amortized over the estimated useful life of the asset, or the term of the lease, whichever is shorter.

(Continued next page)

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

N. Capital Assets and Depreciation (Continued)

Asset Category	Capitalization Threshold	Useful Life (Years)
Buildings and building improvements	\$ 30,000	5-40
Land improvements	30,000	2-25
Equipment & books	5,000	2-20
Vehicles	5,000	5-15
Infrastructure	30,000	7-50

During the year ended June 30, 2016, the County capitalized \$0 of interest and charged \$427,588 to expense, not considering Hardin Memorial Hospital. Hardin Memorial Hospital, a blended component unit capitalized \$852,436 of interest and charged \$1,361,684 to expense.

O. Fund Equity

In the fund financial statements, the difference between the assets and deferred outflows and liabilities and deferred inflows of governmental funds is reported as fund balance. In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2016, nonspendable fund balances were composed of \$333,925 related to inventory for the Road Fund and \$804,526 related to the corpus of the permanent funds.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2016, the County had \$908,197 restricted for roads in the Road Fund, \$395,804 restricted for the detention facility in the Jail Fund and \$836,850 restricted in the non-major funds (\$636,239 in the Permanent Funds as required by the trust documents and \$200,611 in the Special Revenue Funds, (\$10 for grants and \$200,601 for the library).

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the Fiscal Court is through resolution. There were no commitments at June 30, 2016.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. There were no assigned fund balances at June 30, 2016.

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

O. Fund Equity (Continued)

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The County considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the County has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

P. 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 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 is 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.

Q. Estimates

The preparation of financial statements 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. Actual results could differ from those estimates.

R. 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.

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

S. Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, 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 on a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs is 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 2016, the Hospital was in the fourth year under the Medicaid program and recorded revenue of approximately \$1,325,000. This revenue was recorded in other operating revenues.

T. Budgetary Information

Annual budgets for the Hardin County Fiscal Court and Hardin County Planning and Development Commission, a discretely presented component unit, 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 June 30. 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.

U. Related Organizations

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

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

V. Jointly Governed Organization

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that create 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 on these criteria, the Hardin County Industrial Foundation is considered a jointly governed organization of the Hardin County, Kentucky.

W. 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 funds. 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 it 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, 2016. The noncurrent portion of the liability is not reported.

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, 2015, was \$19,033, decreases during the year were \$19,033 and increases were \$22,067, for a balance at June 30, 2016, of \$22,067.

X. Goodwill

Hardin Memorial Hospital, a blended component unit of Hardin County, Kentucky, 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, a surgical center, an urgent care practice and cardiology practice, as of June 30, 2016 was \$9,781,777.

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Y. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Note 1. Summary of Significant Accounting Policies (Continued)

Recently Issued And Adopted Accounting Principles

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. GASB 69 establishes accounting and financial reporting standards related to fair value measurements. This statement is effective for periods beginning after June 15, 2015. This statement was adopted during the fiscal year ended June 30, 2016 and did not have an impact on the County's financial statements.

In December 2015, the GASB issued Statement 79, *Certain External Investment Pools and Pool Participants*. This statement is effective for periods beginning after June 15, 2015. This statement was adopted during the fiscal year ended June 30, 2016 and did not have an impact on the County's financial statements.

Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the County's financial statements.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the County's financial statements.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the County's financial statements.

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for periods beginning after June 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the County's financial statements.

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

In August 2015, the GASB issued Statement 77, *Tax Abatement Disclosures*. This statement is effective for periods beginning after December 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the County's financial statements.

In December 2015, the GASB issued Statement 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement is effective for periods beginning after December 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the County's financial statements.

In January 2016, the GASB issued Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the County's financial statements.

In March 2016, the GASB issued Statement 81, *Irrevocable Split-Interest Agreements*. This statement is effective for periods beginning after December 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the County's financial statements.

In March 2016, the GASB issued Statement 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 72*. This statement is effective for periods beginning after June 15, 2016 except for the requirements of the Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the County's financial statements.

Note 2. Deposits and Investments

A. Deposits

The primary government and 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, 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.

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 2. Deposits and Investments (Continued)

Custodial Credit Risk—Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2016, \$67,038,785 (\$8,274,175 for the County, \$58,556,562 for Hardin Memorial Hospital and \$208,048 for the Hardin County Planning and Development Commission) of the County's bank balance of \$68,463,541 (\$8,962,243 for the County, \$58,806,562 for Hardin Memorial Hospital and \$694,736 for the Hardin County Planning and Development Commission) was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging financial institution	<u>\$ 67,038,785</u>
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B. Investments

As of June 30, 2016, the County had the following investments and maturities:

	Fair Value	Average Credit Quality/Ratings	Less Than 1
Money Market Funds	\$ 4,750	Unrated	\$ 4,750
Open-ended mutual funds	1,339,998	Unrated	1,339,997
Total Investments With Maturities	1,344,748		\$ 1,344,747
External investment pool	151,002	Unrated	N/A
Total Investments	\$ 1,495,750		

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

	Fair Value	Less Than 1	1-10
U.S. Agencies obligations	\$ 22,499,957	5,776,039	16,723,918
U.S. Treasury obligations	20,907,344	4,212,207	16,695,137
Guaranteed investment contracts	4,214,745	-	4,214,745
Money market mutual funds	5,422,421	5,422,421	-
Total Investments With Maturities	\$ 53,044,467	\$ 15,410,667	\$ 37,633,800

(Continued next page)

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 2. Deposits and Investments (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

At June 30, 2016, the County's money market funds and open-ended mutual funds were Level 1 inputs and its external investment pool was a Level 2 input.

At June 30, 2016, Hardin Memorial Hospital, a blended component unit's U.S. Agencies and U.S. Treasury Obligations were Level 2 inputs and its Money-market mutual funds were Level 1 inputs. The guaranteed investment contract is not subject to the input measurement.

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 (1) of the three (3) highest categories by a 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)

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 2. Deposits and Investments (Continued)

- Bankers' acceptances for banks rated in one (1) of the three (3) 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 (1) of the three (3) highest categories by a nationally recognized rating agency; and
- Shares of mutual funds, each of which shall have the following characteristics:
 1. The mutual fund 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 (5) years; and
 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 a 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 are invested in any single security. **Custodial Credit Risk** is the risk that, in the event of the 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 investment in securities is held by the counterparty's trust department in the County's name. The County does not record any investments at amortized cost. The investment in the external investment pool is not SEC-registered and is under the oversight of the Central Kentucky Community Foundation. Investments are measured for fair value quarterly and the method used to determine participants' shares sold and redeemed is based on percentage ownership in the pool. That method is the same used to report investments. The pool sponsor has not provided or obtained any legally binding guarantees during the period to support the value of shares. The fair value of the position in the pool is the same as the value of pool shares. There was no involuntary participation in the pool.

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 3. Disaggregation of Receivables

Receivables are amounts owed Hardin County as of June 30, 2016. Those amounts for governmental funds that are measurable and available are recorded in the statement 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 assets. Receivables at June 30, 2016, for Hardin County's individual governmental major funds and nonmajor funds in the aggregate, including allowance for uncollectibles, with a reconciliation to governmental activities follows:

	General Fund	Road Fund	Jail Fund	Nonmajor Governmental Funds	Total Governmental Funds	Accrual Additions	Total Governmental Activities
Receivables:							
Taxes - current	\$ 141,131	\$ -	\$ -	\$ -	\$ 141,131	\$ 75,642	\$ 216,773
Taxes - delinquent	14,705	-	-	-	14,705	-	14,705
Ambulance	802,203	-	-	-	802,203	5,604,520	6,406,723
Other	504,012	72,518	24,533	-	601,063	-	601,063
Intergovernmental - state	-	540,125	442,307	1,890,044	2,872,476	-	2,872,476
Gross receivables	1,462,051	612,643	466,840	1,890,044	4,431,578	5,680,162	10,111,740
Less: allowance for uncollectibles	-	-	-	-	-	4,092,142	4,092,142
Net total receivables	<u>\$ 1,462,051</u>	<u>\$ 612,643</u>	<u>\$ 466,840</u>	<u>\$ 1,890,044</u>	<u>\$ 4,431,578</u>	<u>\$ 1,588,020</u>	<u>\$ 6,019,598</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 \$4,092,142 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 whom are local residents and are insured under third-party payor agreements. The Hospital has established an allowance of \$17,063,849. The percentages of receivables from patients and third party payors as of June 30, 2016 were as follows:

Medicare	32%
Medicaid	14%
Other third-party payers	44%
Patients	<u>10%</u>
	<u>100%</u>

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 5 Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental activities:				
Non-Depreciable Assets:				
Land	\$ 19,425,088	\$ -	\$ (693,600)	\$ 18,731,488
Construction in progress	13,703,552	2,388,048	(1,017,275)	15,074,325
Total capital assets not being depreciated	33,128,640	2,388,048	(1,710,875)	33,805,813
Depreciable Assets:				
Buildings	22,707,748	16,966	(2,467,907)	20,256,807
Infrastructure	100,643,810	1,377,978	-	102,021,788
Equipment and books	11,743,699	1,521,720	(499,164)	12,766,255
Vehicles	7,400,506	502,428	(421,551)	7,481,383
Totals capital assets being depreciated	142,495,763	3,419,092	(3,388,622)	142,526,233
Less accumulated depreciation for:				
Buildings	(6,891,738)	(388,763)	937,829	(6,342,672)
Infrastructure	(56,042,092)	(2,390,136)	-	(58,432,228)
Equipment and books	(9,451,207)	(633,140)	469,619	(9,614,728)
Vehicles	(4,554,023)	(386,580)	310,520	(4,630,083)
Total accumulated depreciation	(76,939,060)	(3,798,619)	1,717,968	(79,019,711)
Total capital assets being depreciated, net	65,556,703	(379,527)	(1,670,654)	63,506,522
Governmental activities capital assets, net	<u>\$ 98,685,343</u>	<u>\$ 2,008,521</u>	<u>\$ (3,381,529)</u>	<u>\$ 97,312,335</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 232,964
Protection to persons and property	946,355
General health and sanitation	63,524
Recreation and culture	165,640
Roads	2,390,136
Total governmental activities depreciation expense	<u>\$ 3,798,619</u>

(Continued next page)

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 5. Capital Assets (Continued)

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Business-type activities:				
Non-Depreciable Assets:				
Land	\$ 11,928,437	\$ 71,817	\$ -	\$ 12,000,254
Construction in progress	2,711,675	5,231,642	(712,225)	7,231,092
Total capital assets not being depreciated	14,640,112	5,303,459	(712,225)	19,231,346
Depreciable Assets:				
Land improvements	6,025,908	-	-	6,025,908
Building and improvements	110,321,761	1,920,895	-	112,242,656
Landfill	28,758,172	47,034	-	28,805,206
Equipment	196,582,642	4,689,515	(82,330)	201,189,827
Vehicles	161,887	82,024	-	243,911
Totals capital assets being depreciated	341,850,370	6,739,468	(82,330)	348,507,508
Less accumulated depreciation for:				
Land improvements	(4,300,368)	(254,924)	-	(4,555,292)
Building and improvements	(48,497,234)	(3,621,029)	-	(52,118,263)
Landfill	(14,894,445)	(969,709)	-	(15,864,154)
Equipment	(160,871,753)	(7,474,994)	68,504	(168,278,243)
Vehicles	(86,445)	(19,766)	-	(106,211)
Total accumulated depreciation	(228,650,245)	(12,340,422)	68,504	(240,922,163)
Total capital assets being depreciated, net	113,200,125	(5,600,954)	(13,826)	107,585,345
Business-type activities capital assets, net	\$ 127,840,237	\$ (297,495)	\$ (726,051)	\$ 126,816,691
Depreciation was charged to functions as follows:				
Business-type activities:				
Solid Waste Fund		\$ 1,008,731		
Jail commissary fund		12,706		
Hardin Memorial Hospital		11,318,985		
Total business-type activities depreciation expense		\$ 12,340,422		

(Continued next page)

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 5. Capital Assets (Continued)

	Reporting Entity			Ending Balance
	Beginning Balance	Additions	Retirements	
Hardin County Planning and Development Commission				
Depreciable Assets:				
Equipment	\$ 25,196	\$ -	\$ -	\$ 25,196
Vehicles	23,140	-	-	23,140
Totals capital assets being depreciated	48,336	-	-	48,336
Less accumulated depreciation for:				
Equipment	(25,196)	-	-	(25,196)
Vehicles	(13,884)	(4,628)	-	(18,512)
Total accumulated depreciation	(39,080)	(4,628)	-	(43,708)
Total capital assets being depreciated, net	<u>\$ 9,256</u>	<u>\$ (4,628)</u>	<u>\$ -</u>	<u>\$ 4,628</u>

Depreciation was charged to functions as follows:

Hardin County Planning and Development Commission	<u>\$ 4,628</u>
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Note 6. Interfund Transactions

	Transfers In	Transfers Out
General Fund	\$ 736,196	\$ 5,769,192
Road Fund	3,009	-
Jail Fund	2,521,370	285,675
Capital Improvements Fund	1,024,924	-
Non-major Governmental Funds	1,488,721	47,487
Hardin Memorial Hospital	-	518,000
Solid Waste Fund	640,000	45,000
Jail Commissary Fund	-	90,000
Employee insurance fund	341,134	-
Total for fund statements	<u>\$ 6,755,354</u>	<u>\$ 6,755,354</u>
Adjustments for government-wide activities:		
Less: transfers between governmental activities	<u>(6,742,354)</u>	<u>(6,742,354)</u>
Transfers for government-wide statements	<u>\$ 13,000</u>	<u>\$ 13,000</u>

(Continued next page)

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 6. Interfund Transactions (Continued)

Reasons for transfers: 1) to move resources from the one fund to another for budgetary purposes, to the fund that will expend them;; 2) to move resources from funds recording the revenue to the fund making the debt service payments; 3) to move resources from the permanent funds to the fund designated to receive the earnings and 4) to move capital assets between governmental and business-type activities. 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, 2016, shows a due to the Employee Insurance Fund from the General Fund of \$186,563 with a corresponding due from the General Fund shown on the Proprietary Funds – *Statement of Net Position*. This is for funds advanced from the General Fund for claims.

Note 7. Long-term Debt

A. Financing Obligation – Chest Compression Equipment

The County has entered into an agreement for \$125,818 to purchase chest compression equipment. The following is a schedule by year of future minimum lease payments.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2017	\$ 41,939	\$ 1,078
2018	41,939	1,078
2019	6,990	180
Totals	<u>\$ 90,868</u>	<u>\$ 2,336</u>

B. General Obligation Refunding 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, 2016, was \$10,920,000 (\$1,120,000 series A and \$9,800,000 series B). Annual debt service requirements are as follows:

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Series A Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2017	\$ 180,000	\$ 25,438
2018	180,000	21,838
2019	185,000	18,238
2020	200,000	14,537
2021	205,000	10,038
2022-2023	170,000	6,261
Totals	<u>\$ 1,120,000</u>	<u>\$ 96,350</u>

Series B Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2017	\$ -	\$ 328,625
2018	-	328,625
2019	-	328,625
2020	190,000	328,625
2021	195,000	324,825
2022-2026	1,980,000	1,520,100
2027-2031	2,470,000	1,204,425
2032-2036	2,930,000	749,850
2037-2039	2,035,000	165,000
Totals	<u>\$ 9,800,000</u>	<u>\$ 5,278,700</u>

C. Revenue Bonds – Hardin Memorial Hospital

Hardin Memorial Hospital, a blended component unit of Hardin County Fiscal Court, issued revenue bonds dated August 1, 2013, 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, 2016, the Hospital was in compliance with such requirements. The principal outstanding as of June 30, 2016, was \$39,400,000. Annual debt service requirements are as follows:

(Continued next page)

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 7. Long-term Debt (Continued)

Fiscal Year Ended June 30	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 545,000	\$ 2,198,308
2018	575,000	2,166,251
2019	610,000	2,132,183
2020	645,000	2,096,101
2021	680,000	2,058,008
2022-2026	4,040,000	9,657,431
2027-2031	5,240,000	8,460,981
2032-2036	6,935,000	6,765,656
2037-2041	8,690,000	4,573,615
2042-2046	11,440,000	1,720,688
Totals	\$ 39,400,000	\$ 41,829,222

D. Financing Obligation – 911 Equipment

The County has entered into an agreement to purchase 911 equipment. The following is a schedule by year of future minimum lease payments.

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 81,286	\$ 25,692
2018	84,098	22,882
2019	87,008	19,976
2020	90,018	16,969
2021	93,133	13,857
2022-2025	405,890	22,107
Totals	\$ 841,433	\$ 121,483

(Continued next page)

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 7. Long-term Debt (Continued)

E. 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, 2016. 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
2017	\$ 289,432	\$ -
2018	16,529	-
2019	12,397	-
Totals	<u>\$ 318,358</u>	<u>\$ -</u>

F. Financing Obligations – General Obligation Notes, Series 2013

The Hardin Fiscal Court issued \$1,000,000 in General Obligation Notes, dated December 20, 2013, for the acquisition and equipping five ambulances. The notes 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, 2016, was \$394,500. Annual debt service requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2017	\$ 200,933	\$ 8,782
2018	193,567	3,923
Totals	<u>\$ 394,500</u>	<u>\$ 12,705</u>

(Continued next page)

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 7. Long-term Debt (Continued)

G. General Obligation Bonds, Series 2011

Hardin County Fiscal Court issued \$3,915,000 in General Obligation Refunding Bonds dated November 30, 2011, to refund the Series 2002 General Obligation Bonds of \$3,760,000. The final maturity date of the 2002 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 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, 2016, bonds outstanding were \$1,410,000. Annual debt service requirements are as follows:

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 225,000	\$ 27,175
2018	225,000	22,675
2019	230,000	18,125
2020	240,000	13,425
2021	240,000	8,325
2022	250,000	2,812
Totals	<u>\$ 1,410,000</u>	<u>\$ 92,537</u>

H. General Obligation Bonds, Series 2008

Hardin County Fiscal Court issued general obligation bonds, series 2008 dated June 1, 2008, in the amount of \$9,830,000 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. The final maturity date is June 1, 2019. As of June 30, 2016, bonds outstanding were \$3,265,000. Annual debt service requirements are as follows:

Fiscal Year Ended June 30	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,055,000	\$ 111,010
2018	1,085,000	75,140
2019	1,125,000	38,250
Totals	<u>\$ 3,265,000</u>	<u>\$ 224,400</u>

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 7. Long-term Debt (Continued)

I. General Obligation Bonds, Series 2009

Hardin County Fiscal Court issued general obligation bonds, series 2009 dated September 1, 2009, in the amount of \$1,410,000 at an interest rate 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, 2016, bonds outstanding were \$190,000. Annual debt service requirements are as follows:

Fiscal Year Ended June 30	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 190,000	\$ 5,320
Totals	\$ 190,000	\$ 5,320

J. Glendale Project

On August 9, 2002, Hardin County Fiscal Court entered into a non-interest bearing loan agreement with the 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, 2016, 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.

K. Hardin Memorial Hospital Line of Credit

On November 1, 2011, the Hospital obtained a \$5 million revolving line of credit expiring on August 5, 2017. At June 30, 2016, there was \$0 borrowed. The line is collateralized by substantially all of the Hospital's assets. Interest is payable quarterly at a fixed rate of 3% at June 30, 2016.

L. Deferred Outflows of Resources

GABS 65 provides' financial reporting guidance relative to deferred outflows 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 outflows on the Entity-wide Statement of Net Position.

	<u>Business-type Activities</u>
Deferred amount on debt refunding	\$ 23,073

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

M. Aggregate Debt Schedules

The amounts of required principal and interest payments on long-term obligations at June 30, 2016 were as follows:

Governmental Activities					
Year	Bonds		Financing Obligations		Total
	Principal	Interest	Principal	Interest	
2017	\$ 260,000	\$ 387,438	\$ 324,158	\$ 35,552	\$ 1,007,148
2018	405,000	381,238	319,604	27,884	1,133,726
2019	405,000	373,138	93,998	20,155	892,291
2020	415,000	364,988	90,018	16,969	886,975
2021	630,000	356,588	93,133	13,857	1,093,578
2022-2026	2,590,000	1,589,363	11,045,475	22,107	15,246,945
2027-2031	2,395,000	1,278,925	-	-	3,673,925
2032-2036	2,825,000	851,750	-	-	3,676,750
2037-2039	2,665,000	271,600	-	-	2,936,600
	<u>\$ 12,590,000</u>	<u>\$ 5,855,028</u>	<u>\$ 11,966,386</u>	<u>\$ 136,524</u>	<u>\$ 30,547,938</u>

(Continued next page)

HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 7. Long-term Debt (Continued)

Business-type Activities						
Year	General Obligation Bonds		Hospital Revenue Bonds		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 1,245,000	\$ 113,670	\$ 545,000	\$ 2,198,308	\$ 1,790,000	\$ 2,311,978
2018	1,085,000	75,140	575,000	2,166,251	1,660,000	2,241,391
2019	1,125,000	38,250	610,000	2,132,183	1,735,000	2,170,433
2020	-	-	645,000	2,096,101	645,000	2,096,101
2021	-	-	680,000	2,058,008	680,000	2,058,008
2022-2026	-	-	4,040,000	9,657,431	4,040,000	9,657,431
2027-2031	-	-	5,240,000	8,460,981	5,240,000	8,460,981
2032-2036	-	-	6,935,000	6,765,656	6,935,000	6,765,656
2037-2041	-	-	8,690,000	4,573,615	8,690,000	4,573,615
2042-2046	-	-	11,440,000	1,720,688	11,440,000	1,720,688
	\$ 3,455,000	\$ 227,060	\$ 39,400,000	\$ 41,829,222	\$ 42,855,000	\$ 42,056,282
	Financing Obligations					
Year	Principal	Interest				
2017	\$ 289,432	\$ -				
2018	16,529	-				
2019	12,397	-				
	\$ 318,358	\$ -				

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 7. Long-term Debt (Continued)

N. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Primary Government:					
Governmental Activities:					
General obligation bonds	\$ 12,590,000	\$ -	\$ (260,000)	\$ 12,330,000	\$ 405,000
Add: unamortized premium	100,858	-	(5,640)	95,218	-
Less: unamortized discount	(3,445)	-	430	(3,015)	-
Financing obligations:					
Glendale Project	10,639,585	-	-	10,639,585	-
Other	854,587	904,801	(432,587)	1,326,801	324,158
Compensated absences	688,769	-	(48,971)	639,798	60,319
Governmental Activities, long-term liabilities	<u>\$ 24,870,354</u>	<u>\$ 904,801</u>	<u>\$ (746,768)</u>	<u>\$ 25,028,387</u>	<u>\$ 789,477</u>
Business-type Activities:					
General obligation bonds	\$ 4,660,000	\$ -	\$ (1,205,000)	\$ 3,455,000	\$ 1,245,000
Less: unamortized discount	(1,472)	-	737	(735)	-
Financing obligations	865,849	49,587	(597,078)	318,358	289,432
Hospital revenue bonds	39,400,000	-	-	39,400,000	545,000
Add: unamortized premium	160,338	-	(10,175)	150,163	-
Business-type Activities, long-term liabilities	<u>\$ 45,084,715</u>	<u>\$ 49,587</u>	<u>\$ (1,811,516)</u>	<u>\$ 43,322,786</u>	<u>\$ 2,079,432</u>

The general fund, road fund, jail fund and solid waste fund are primarily responsible for liquidating other long-term liabilities related to compensated absences.

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 8. 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, 2016, are estimated at \$7,492,601 and \$1,475,020 based on landfill capacity used to date. The current portion of estimated costs totals \$5,332,466. 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, 2016 was \$2,924,880. This is the amount reflected as restricted net position in the accompanying financial statements. As of January 5, 2016, approximately 59% of the landfill airspace had been used. The estimated remaining landfill life is 19.6 years.

Note 9. Employee Retirement System

A. Hardin County Fiscal Court

The County participates in the County Employees Retirement System (CERS).

Plan Description - The County participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky, which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov.

This system consists of two plans – *Nonhazardous and Hazardous*. Each plan is a cost-sharing multiple employer defined benefit pension plan that covers all regular full-time members employed in nonhazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS.

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 9. Employee Retirement System (Continued)

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2016, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

Contributions

For the fiscal year ended June 30, 2016 plan members who began participating prior to September 1, 2008, were required to contribute 5% nonhazardous and 8% hazardous of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Section 78.545(33) CERS normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% for nonhazardous and 9% for hazardous of their annual creditable compensation. 5% for nonhazardous and 8% for hazardous of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% for nonhazardous and 8% for hazardous of their annual creditable compensation.

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 9. Employee Retirement System (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) and 8% (hazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) and 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The County's contractually required contribution rate for the year ended June 30, 2016, was 12.42 percent of annual creditable compensation for nonhazardous employees and 20.26 percent of annual creditable compensation for hazardous employees. Contributions to the pension plan from the County were \$1,298,165 (\$462,675 for nonhazardous and \$835,490 for hazardous).

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the County reported a liability of \$18,876,016 for its proportionate share of the net pension liability (\$6,354,464 for nonhazardous and \$12,521,552 for hazardous). The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the County's proportion was 0.147795 percent for nonhazardous and 0.0081568 percent for hazardous which was a decrease of 0.00001417 percent for nonhazardous and a decrease of 0.00044433 percent for hazardous from its proportion measured as of June 30, 2014.

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 9. Employee Retirement System (Continued)

For the year ended June 30, 2016, the County recognized pension expense of \$2,649,418 (\$969,704 for nonhazardous and \$1,679,714 for hazardous). At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 231,978	\$ 934,200
Changes in actuarial assumptions	1,230,604	-
Difference between projected and actual investment earnings	108,478	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	326,504
Contributions paid to CERS subsequent to the measurement date	<u>1,298,165</u>	<u>-</u>
	<u>\$ 2,869,225</u>	<u>\$ 1,260,704</u>

The amount reported as deferred outflows for County contributions subsequent to the measurement date of \$1,298,165 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Pension Expense Amount</u>
2017	\$ 157,071
2018	157,071
2019	(63,604)
2020	<u>27,120</u>
	<u>\$ 277,658</u>

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 9. Employee Retirement System (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 9. Employee Retirement System (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash	<u>2%</u>	-0.25%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

Sensitivity Of The County's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
County's proportionate share of the net pension liability - nonhazardous	\$ 8,112,287	\$ 6,354,464	\$ 4,849,080
County's proportionate share of the net pension liability - hazardous	\$ 16,028,006	\$ 12,521,552	\$ 9,616,370

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 9. Employee Retirement System (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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.

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 9. Employee Retirement System (Continued)

B. Hardin Memorial Hospital – Defined Contribution Plan

Hardin Memorial Hospital, a blended component unit of the Hardin County, Kentucky 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 defined contribution pension plan that is administered by the Kentucky Deferred Compensation Authority. Effective September 1, 2015, the defined contribution pension plan was transitioned to Fidelity as the administrator and all employee and employer contributions will be held with Fidelity as the trustee. All existing balances with the Kentucky Deferred Compensation Authority will be transitioned to Fidelity once approval of the defined contribution pension plan is obtained from the IRS. The defined contribution pension plan provides retirement benefits to the defined contribution pension plan members and their beneficiaries. The Hospital matches half of the contributions made by participants at up to 5% of their salary. Contributions actually made by the defined contribution pension plan members and the Hospital aggregated \$3,858,412 and \$1,299,520 during 2016, of which \$0 of employer match contributions were included in accrued expenses at June 30, 2016.

C. Hardin Memorial Hospital – Defined Benefit Plan

Hardin Memorial Hospital, a blended component unit of the Hardin County, Kentucky contributes to the Hardin Memorial Hospital Retirement Plan (Plan), a single- employer defined benefit pension plan covering substantially all employees. The Plan is administered by a board of trustees as defined in the plan legal document. Benefit provisions are contained in the Plan document and were established and can be amended by action of the Hospital's governing body. The Plan does not issue a separate report that includes financial statements and required supplementary information for the Plan.

Benefits Provided

Normal Retirement Benefit

The annual benefit is equal to the accrued benefit under the restated Plan as of June 30, 1994, plus the actuarial equivalent of the accumulated cash balance. The annual benefit of participants who were active employees on June 30, 1994, should not be less than the greater amount of:

- The sum of 1.4% of the average monthly earnings multiplied by credited service, not to exceed 40 years and 0.55% of the average monthly earnings excess of covered compensation multiplied by credited service, not to exceed 35 years.
- The sum of 1% of past service compensation multiplied by credited service earned prior to January 1, 1976, and 1.5% of monthly earnings multiplied by credited service earned after January 1, 1976. Participants who are rehired on or after October 1, 2010, will not accrue any additional benefits under these terms.

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 9. Employee Retirement System (Continued)

Early Retirement Benefit

Early retirement benefits are the accrued retirement benefit determined as of the early retirement date and payable commencing at the early retirement date, reduced by either:

- 5/12% for each month by which the early retirement date precedes the normal retirement date if the participant has less than 10 years of service.
- 4/12% for each month by which the early retirement date precedes the attained age of 60 if the participant has 10 or more years of service.

Late Retirement Benefit

A participant whose employment continues after his normal retirement date shall not be entitled to receive any benefit under the Plan until the late retirement date. The late retirement benefit is determined in the same manner as a normal retirement benefit, but based upon compensation, accumulated cash balance credited service and average monthly earnings as of the late retirement date.

Disability Retirement Benefit

If vested upon determination of total and permanent disability, benefit accruals will continue until age 65, except for employees hired or rehired on or after July 1, 2010, who did not get continued accrual. A disabled participant may elect to receive their benefits prior to age 65 at any time after being credited with five years of service.

Termination Benefit

The accrued benefit as of the determination date, multiplied by the vested percentage, shall be payable at normal retirement date. For participants terminated on or after July 1, 2008, the vested percentage is based on the following table:

<u>Service</u>	<u>Vested Percentage</u>
Less than 3 years	0%
3 or more years	100%

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 9. Employee Retirement System (Continued)

Death Benefit

If a vested active, vested terminated or disabled participant dies before retirement, the death benefit payable to a spouse or beneficiary is a lump-sum value of the accrued benefit.

The employees covered by the Plan at June 30, 2016 were:

Inactive employees or beneficiaries	
currently receiving benefits	228
Inactive employees entitled to	
but not yet receiving	261
benefits	<u>1,704</u>
Active employees	<u><u>2,193</u></u>

Contributions

The Hospital's governing body has the authority to establish and amend the contribution requirements of the Hospital. The governing body establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Hospital is required to contribute at the actuarially determined rate. Employees may not make contributions to the Plan. For the year ended June 30, 2016, the Hospital contributed \$2,979,490 to the Plan.

Net Pension Liability

The Hospital's net pension liability was measured as of June 30, 2015, for the year ended June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015.

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.0 percent
Salary increases	2.0 percent, average, including inflation
Investment rate of return	6.48 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the 2017 PPA Combined Static Mortality Table.

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 9. Employee Retirement System (Continued)

The actuarial assumptions used in the June 30, 2015, valuation were based on reasonable expectations for the plan participants and the benefits provided under the plan.

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Mutual funds - fixed	45%	3.61%
Mutual funds - equity	50%	8.65%
Mutual funds - real estate	5%	7.00%
Total	<u>100%</u>	<u>6.30%</u>

*Weighted average

Discount Rate

The discount rate used to measure the total pension liability was 5.96% for the year ended June 30, 2016. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at a rate equal to actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 9. Employee Retirement System (Continued)

Changes in the total pension liability, plan fiduciary net position and the net pension liability are:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 85,662,836	\$ 62,975,724	\$ 22,687,112
Changes for the year:			
Service cost	1,636,982		1,636,982
Interest	5,589,547		5,589,547
Differences between expected and actual experience	200,497		200,497
Contributions - employer		2,849,367	(2,849,367)
Net investment income		2,077,095	(2,077,095)
Benefit payments	(4,580,687)	(4,580,687)	-
Administrative expense		(15,000)	15,000
Change in assumptions	10,225,854		10,225,854
Other		116,262	(116,262)
Net changes	13,072,193	447,037	12,625,156
Balance, end of year	\$ 98,735,029	\$ 63,422,761	\$ 35,312,268

The net pension liability of the Hospital has been calculated using a discount rate of 5.96%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (4.96%)	Current Discount Rate (5.96%)	1% Increase (6.96%)
Net pension liability	\$ 48,094,351	\$ 35,312,268	\$ 24,649,963

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 9. Employee Retirement System (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the Hospital recognized pension expense of \$3,371,093. At June 30, 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 181,872	\$ 2,305,004
Changes of assumptions	9,937,983	-
Net difference between projected and actual earning on pension plan investments	-	927,940
Hospital's contributions made subsequent to the measurement date of the net pension liability	<u>2,979,490</u>	<u>-</u>
Total	<u>\$ 13,099,345</u>	<u>\$ 3,232,944</u>

At June 30, 2016, the Hospital reported \$2,979,490 as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net pension liability at June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2016, related to the pension plan will be recognized in pension expense as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 337,740
2018	337,740
2019	337,739
2020	1,184,337
2021	781,374
Thereafter	<u>3,907,981</u>
	<u>\$ 6,886,911</u>

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 9. Employee Retirement System (Continued)

D. 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 23.26% 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, 2016 were \$67,528, which consisted of \$66,878 from the Commission and \$650 from the employees. Payroll for plan employees was \$265,269. The Commission contributed the scheduled amount for the year ended June 30, 2016.

Note 10. Post-employment Health Care – Hardin Memorial Hospital

Plan Description

Effective with retirements on or after July 1, 1992, the Hospital 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 Postemployment Health Care Plan (Health Care 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 postemployment benefits (OPEB).

Annual Other Postemployment Benefits Cost and Net Other Postemployment 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 unfunded actuarial accrued liability (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 Health Care Plan and changes in the Hospital's net OPEB obligation to the Health Care Plan:

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 10. Post-employment Health Care (Continued)

Annual required contribution	\$ 631,271
Interest on net OPEB obligation	140,791
Adjustment to annual required contribution	<u>(203,548)</u>
Annual OPEB cost (expense)	568,514
Contributions made	<u>(602,394)</u>
Increase (decrease) in net OPEB obligation	(33,880)
Net OPEB obligation - beginning of year	<u>3,465,732</u>
Net OPEB obligation - end of year	<u>\$ 3,431,852</u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 794,124	41%	\$ 3,311,442
June 30, 2015	\$ 724,488	79%	\$ 3,465,732
June 30, 2016	\$ 568,514	106%	\$ 3,431,852

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the Health Care Plan had no assets, since the Hospital does not fund the Health Care Plan. The UAAL for benefits was \$10.07 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 Health Care 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 the Health Care Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities (AAL) for benefits.

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 10. Post-employment Health Care (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Health Care Plan (the Health Care Plan as understood by the employer and Health Care 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 Health Care 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% discount rate, an annual health care cost trend rate of 7.5% initially, reduced by decrements to an ultimate coverage with 55% of male retirees and 35% 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.

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HARDIN COUNTY, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016
 (Continued)

Note 12. Medical Malpractice Claims

The Hardin Memorial Hospital, a blended component unit of the 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 that the Hospital's estimate of 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 during 2016 is summarized as follows:

Balance, beginning of year	\$ 6,818,942
Current year claims incurred and changes in estimates for claims incurred in prior year:	171,464
Claims and expenses paid	<u>(464,365)</u>
Balance, end of year	<u>\$ 6,526,041</u>

Note 13. Insurance

For the fiscal year ended June 30, 2016, 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.

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 14. 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 Employee Benefits Administration to administer the employee insurance plan. The contract automatically renews until terminated by either party. Effective March 31, 2016, the dental portion was eliminated.

This self-funded insurance plan has two distinct components. The first component is the fixed cost, 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 provisions 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 Employee Insurance Funds. Changes in claims liability during fiscal years ended June 30, 2016 and June 30, 2015 were as follows:

Fiscal year Ended June 30,	Balance at beginning of fiscal year	Current-year claims and changes in estimates	Claim payments	Balance at end of fiscal year
2016	\$ -	\$ 1,795,116	\$ 1,795,116	\$ -
2015	\$ -	\$ 1,422,038	\$ 1,422,038	\$ -

B. Hardin Memorial Hospital

Substantially all of Hardin Memorial Hospital, a blended component unit of the 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 \$400,000 per individual claim. Commercial stop-loss insurance coverage is purchased for claims in excess of \$400,000 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. Changes in claims liability during fiscal years ended June 30, 2016 and June 30, 2015 were as follows:

Fiscal year Ended June 30,	Balance at beginning of fiscal year	Current-year claims and changes in estimates	Claim payments	Balance at end of fiscal year
2016	\$1,231,007	\$ 19,215,492	\$ 19,520,492	\$ 926,007
2015	\$1,050,000	\$ 18,171,129	\$ 17,990,122	\$1,231,007

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HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 15. 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 performed. The 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 or fair value.

Note 16. Endowment Funds

Hardin Memorial Hospital, a blended component unit of the 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 received income earned on the trust assets in perpetuity, but never receives the assets held in trust. Unrestricted income received for the year ended June 30, 2016 was \$31,355. The principal of the funds (market value as of June 30, 2016 aggregated \$590,681) is not directly or indirectly controlled by the Hospital. Accordingly, such endowment funds are not included as assets on the Hospital's statement of net position.

Note 17. Worker's Compensation

Hardin Memorial Hospital, a blended component unit of the Hardin County Fiscal Court, has a letter of credit with Kentucky Neighborhood Bank in the amount of \$2,745,000, which expires on November 16, 2016, 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, 2015, the Hospital has recorded a liability for the workers' compensation plan of approximately \$724,000.

(Continued next page)

HARDIN COUNTY, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 18. Commitments and Contingencies

The County and Hardin Memorial Hospital, a blended component unit, are a defendants in a number of lawsuits that have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcome cannot be predicted with certainty. In the opinion of the County Attorney, these actions when finally adjudicated will not have material adverse effect on the financial position of the County and Hardin Memorial Hospital, a blended component unit. Also, the County and Hardin Memorial Hospital, a blended component unit, have entered into various commitments related to the purchase of equipment and construction projects. The County receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the County for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the County's programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended.

The County and Hardin Memorial Hospital, a blended component unit, also have commitments for the purchase of capital equipment and construction projects.

Hardin County Planning and Development Commission, a discretely presented component unit of Hardin County Fiscal Court, has \$92,032 committed for repayment of developer advances.

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. Subsequent Events

The Hardin County Fiscal Court adopted a resolution on July 26, 2016, for which directed Hardin Memorial Hospital, a blended component unit, to refund \$1,975,000 to the Fiscal Court's Board Designated Fund Reserves in quarterly installments beginning July 2016.

REQUIRED SUPPLEMENTARY INFORMATION

HARDIN COUNTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 BUDGETARY BASIS
 YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	\$ 8,179,000	\$ 8,179,000	\$ 7,975,330	\$ (203,670)
Excess fees	1,033,500	1,051,602	1,000,617	(50,985)
Licenses and permits	197,000	197,000	195,677	(1,323)
Intergovernmental	509,000	515,940	444,926	(71,014)
Charges for services	6,238,000	6,238,000	5,413,163	(824,837)
Investment earnings	50,000	50,000	16,902	(33,098)
Miscellaneous revenue	835,200	873,346	1,089,317	215,971
TOTAL REVENUES	17,041,700	17,104,888	16,135,932	(968,956)
EXPENDITURES:				
General government	3,039,534	3,056,623	2,960,767	95,856
Protection to persons and property	8,866,944	8,823,043	8,588,188	234,855
General health and sanitation	922,805	915,065	864,478	50,587
Social services	122,505	117,667	112,273	5,394
Recreation and culture	6,000	11,070	10,600	470
Debt service	934,940	970,788	970,777	11
Capital projects	26,000	27,595	26,494	1,101
Administration	769,369	1,048,887	1,000,302	48,585
TOTAL EXPENDITURES	14,688,097	14,970,738	14,533,879	436,859
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	2,353,603	2,134,150	1,602,053	(532,097)
OTHER FINANCING SOURCES (USES):				
Proceeds from disposal of equipment	10,000	10,000	8,149	(1,851)
Financing obligation proceeds	750,000	778,983	778,983	-
Insurance reimbursements	175,000	213,449	181,298	(32,151)
Transfers in	45,000	45,000	217,974	172,974
Transfers out	(3,333,603)	(3,333,603)	(4,936,294)	(1,602,691)
TOTAL OTHER FINANCING SOURCES (USES)	(2,353,603)	(2,286,171)	(3,749,890)	(1,463,719)
CHANGE IN FUND BALANCES	-	(152,021)	(2,147,837)	(1,995,816)
FUND BALANCES, July 1, 2015	-	152,021	5,931,364	5,779,343
FUND BALANCES, June 30, 2016	\$ -	\$ -	\$ 3,783,527	\$ 3,783,527

HARDIN COUNTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 ROAD FUND
 BUDGETARY BASIS
 YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Licenses and permits	\$ 14,000	\$ 14,000	\$ 13,970	\$ (30)
Intergovernmental	2,530,802	2,621,133	2,621,038	(95)
Investment earnings	10,000	10,000	4,443	(5,557)
Miscellaneous revenue	120,000	206,347	79,234	(127,113)
TOTAL REVENUES	2,674,802	2,851,480	2,718,685	(132,795)
EXPENDITURES:				
General government	8,000	8,000	6,753	1,247
Roads	2,107,157	2,263,508	2,146,951	116,557
Administration	577,645	577,875	512,846	65,029
TOTAL EXPENDITURES	2,692,802	2,849,383	2,666,550	182,833
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(18,000)	2,097	52,135	50,038
OTHER FINANCING SOURCES (USES):				
Proceeds from disposal of equipment	10,000	10,000	-	(10,000)
Transfers in	8,000	8,000	2,760	(5,240)
TOTAL OTHER FINANCING SOURCES (USES)	18,000	18,000	2,760	(15,240)
CHANGE IN FUND BALANCES	-	20,097	54,895	34,798
FUND BALANCES, July 1, 2015	-	-	298,700	298,700
FUND BALANCES, June 30, 2016	\$ -	\$ 20,097	\$ 353,595	\$ 333,498

HARDIN COUNTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 JAIL FUND
 BUDGETARY BASIS
 YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Intergovernmental	\$ 4,630,464	\$ 4,630,464	\$ 4,264,503	\$ (365,961)
Charges for services	410,000	445,360	523,005	77,645
Investment earnings	2,500	2,500	1,223	(1,277)
Miscellaneous revenue	261,000	271,642	205,773	(65,869)
TOTAL REVENUES	5,303,964	5,349,966	4,994,504	(355,462)
EXPENDITURES:				
Protection to persons and property	5,249,327	5,334,277	5,244,892	89,385
Administration	2,194,111	2,195,163	1,985,109	210,054
TOTAL EXPENDITURES	7,443,438	7,529,440	7,230,001	299,439
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(2,139,474)	(2,179,474)	(2,235,497)	(56,023)
OTHER FINANCING SOURCES (USES):				
Transfers in	2,295,149	2,335,149	2,521,370	186,221
Transfers out	(155,675)	(155,675)	(285,675)	(130,000)
TOTAL OTHER FINANCING SOURCES (USES)	2,139,474	2,179,474	2,235,695	56,221
CHANGE IN FUND BALANCES	-	-	198	198
FUND BALANCES, July 1, 2015	-	-	214,528	214,528
FUND BALANCES, June 30, 2016	\$ -	\$ -	\$ 214,726	\$ 214,726

HARDIN COUNTY, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES

June 30, 2016

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 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 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Generally Accepted Accounting Principles (GAAP) differs from the budgetary comparison schedules of the General Fund, Road Fund, and Jail Fund which have been presented on the Budgetary Basis. See the following pages.

HARDIN COUNTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 NOTES TO GENERAL FUND BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED JUNE 30, 2016

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues
 and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 16,135,932
Differences - budget to GAAP:	
The County budgets for revenues only to the extent they are expected to be received rather than on the modified accrual basis.	<u>(225,442)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 15,910,490</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 14,533,879
Differences - budget to GAAP:	
The County budgets for claims only to the extent they are expected to be paid rather than on the modified accrual basis.	<u>(487,243)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 14,046,636</u>

Other Financing Sources (Uses)

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ (5,855,676)
Differences - budget to GAAP:	
The County budgets for for transfers only to the extent that are expected to be transferred rather than on the modified accrual basis.	<u>2,105,786</u>
Total other financing sources (uses) as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ (3,749,890)</u>

HARDIN COUNTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 NOTES TO MAJOR SPECIAL REVENUE FUND - ROAD FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED JUNE 30, 2016

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues
 and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 2,718,685
Differences - budget to GAAP:	
The County budgets for revenues only to the extent they are expected to be received rather than on the modified accrual basis.	(18,836)
Addition of LGEA Fund revenue	<u>269,204</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 2,969,053</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 2,666,550
Differences - budget to GAAP:	
The County budgets for claims only to the extent they are expected to be paid rather than on the modified accrual basis.	(93,910)
Addition of LGEA Fund expenditures	<u>281,094</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 2,853,734</u>

Other Financing Sources (Uses)

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 2,760
Differences - budget to GAAP:	
The County budgets for for transfers only to the extent that are expected to be transferred rather than on the modified accrual basis.	<u>67,143</u>
Total other financing sources (uses) as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 69,903</u>

HARDIN COUNTY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 NOTES TO MAJOR SPECIAL REVENUE FUND - JAIL FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED JUNE 30, 2016

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues
 and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 4,994,504
Differences - budget to GAAP:	
The County budgets for revenues only to the extent they are expected to be received rather than on the modified accrual basis.	<u>117,693</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 5,112,197</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 7,230,001
Differences - budget to GAAP:	
The County budgets for claims only to the extent they are expected to be paid rather than on the modified accrual basis.	<u>3,162</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 7,233,163</u>

Other Financing Sources (Uses)

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 2,235,695
Differences - budget to GAAP:	
The County budgets for for insurance reimbursements only to the extent that are expected to be transferred rather than on the modified accrual basis.	<u>-</u>
Total other financing sources (uses) as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 2,235,695</u>

SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE CERS NET PENSION
LIABILITY - NONHAZARDOUS

June 30, 2016

Last 10 Years *

	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.147795%	0.149212%
Proportionate share of the net pension liability	\$ 6,354,464	\$ 4,841,000
Covered employee payroll	\$ 3,725,243	\$ 3,095,696
Proportionate share of the net pension liability as percentage of covered payroll	170.6%	156.4%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

* Fiscal year 2015 was the first year of
implementation, therefore, only two years are shown.

SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE CERS NET PENSION
LIABILITY - HAZARDOUS

June 30, 2016

Last 10 Years *

	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.815680%	0.860113%
Proportionate share of the net pension liability	\$ 12,521,552	\$ 10,337,000
Covered employee payroll	\$ 4,123,838	\$ 4,356,431
Proportionate share of the net pension liability as percentage of covered payroll	303.6%	237.3%
Plan fiduciary net position as a percentage of the total pension liability	57.52%	63.46%

* Fiscal year 2015 was the first year of
implementation, therefore, only two years are shown.

SCHEDULE OF CONTRIBUTIONS TO CERS - NONHAZARDOUS

June 30, 2016

Last 10 Years *

	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 462,675	\$ 394,701
Contribution in relation to the actuarially determined contributions	<u>462,675</u>	<u>394,701</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,725,243	\$ 3,095,696
Contributions as a percentage of covered employee payroll	12.42%	12.75%

* Fiscal year 2015 was the first year of implementation, therefore, only two years are shown.

SCHEDULE OF CONTRIBUTIONS TO CERS - HAZARDOUS

June 30, 2016

Last 10 Years *

	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 835,490	\$ 903,088
Contribution in relation to the actuarially determined contributions	<u>835,490</u>	<u>903,088</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 4,123,838	\$ 4,356,431
Contributions as a percentage of covered employee payroll	20.26%	20.73%

* Fiscal year 2015 was the first year of implementation, therefore, only two years are shown.

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND
RELATED RATIOS - HARDIN MEMORIAL HOSPITAL

June 30, 2016

Last 10 Years *

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service cost	1,636,982	2,167,271
Interest	5,589,547	6,139,534
Differences between expected and actual experience	200,497	(2,830,182)
Changes of assumption	10,225,854	812,888
Benefit payments, including refunds of employee contributions	<u>(4,580,687)</u>	<u>(4,591,149)</u>
Net Change in Total Pension Liability	13,072,193	1,698,362
Total Pension Liability, beginning	<u>85,662,836</u>	<u>83,964,474</u>
Total Pension Liability, ending (a)	<u>98,735,029</u>	<u>85,662,836</u>
Plan Fiduciary Net Position		
Contributions - employer	2,849,367	3,330,714
Net investment income	2,077,095	8,289,999
Benefit payments, including refunds of employee contributions	(4,580,687)	(4,591,149)
Other	116,262	-
Administrative expense	<u>(15,000)</u>	<u>(20,000)</u>
Net Change in Plan Fiduciary Net Position	447,037	7,009,564
Plan Fiduciary Net Position, beginning	<u>62,975,724</u>	<u>55,966,160</u>
Plan Fiduciary Net Position, ending (b)	<u>63,422,761</u>	<u>62,975,724</u>
Net Pension Liability - Ending (a) - (b)	<u>\$35,312,268</u>	<u>\$22,687,112</u>
Plan fiduciary net position as a percentage of the total pension liability	64%	74%
Covered employee payroll	\$93,308,318	\$85,725,279
Net pension liability as a percentage or covered employee payroll	38%	26%

* Fiscal year 2015 was the first year of implementation, therefore, only two years are shown.

SCHEDULE OF CONTRIBUTIONS - HARDIN MEMORIAL HOSPITAL

June 30, 2016

Last 10 Years *

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 2,979,490	\$ 2,849,367
Contributions in relation to the actuarially determined contribution	<u>2,979,490</u>	<u>2,849,367</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$93,308,318	\$85,725,279
Contributions as a percentage of covered payroll	3%	3%

* Fiscal year 2015 was the first year of implementation, therefore, only two years are shown.

HARDIN COUNTY, KENTUCKY
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 PENSION PLANS
 June 30, 2016

A. Hardin County Fiscal Court – CERS

Changes of benefit terms. There were no changes in benefit terms.

Changes of assumptions. The following changes in assumptions were made:

- »»The assumed investment rate of return was decreased from 7.75% to 7.5%.
- »»The assumed rate of inflation was reduced from 3.5% to 3.25%.
- »»The assumed rate of wage inflation was reduced from 1% to .75%.
- »»Payroll growth assumption was reduced from 4.5% to 4%.
- »»The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- »»For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- »»Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

B. Hardin Memorial Hospital

Changes of benefit terms. There were no changes in benefit terms.

Change of assumptions. Salary increases were decreased from 4% to 2%, effective July 1, 2014.

Valuation date: actuarially determined contributions rates are calculated as of July 1, one year prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates:

- Actuarial cost method: projected unit credit
- Amortization method: level percentage of payroll, open
- Remaining amortization period: 30 years
- Asset valuation method: this method determines the valuation assets to be equal to the market as of the valuation date
- Inflation: 2%
- Salary increases: 2% average, including inflation
- Investment rate of return: 6.48%
- Retirement age: the later of attainment of the plan's normal retirement age or one year from the valuation date
- Mortality: 2017 PPA Combined Static Mortality Table

OTHER SUPPLEMENTARY INFORMATION

HARDIN COUNTY, KENTUCKY
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2016

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	\$ 171,355	\$ -	\$ -	\$ 171,355
Investments	54,985	-	1,440,765	1,495,750
Intergovernmental receivable	1,890,044	-	-	1,890,044
Total Assets	\$ 2,116,384	\$ -	\$ 1,440,765	\$ 3,557,149
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,893,422	\$ -	\$ -	\$ 1,893,422
Accrued liabilities	22,351	-	-	22,351
Total Liabilities	1,915,773	-	-	1,915,773
Fund Balances:				
Nonspendable	-	-	804,526	804,526
Restricted	200,611	-	636,239	836,850
Total Fund Balances	200,611	-	1,440,765	1,641,376
Total Liabilities and Fund Balances	\$ 2,116,384	\$ -	\$ 1,440,765	\$ 3,557,149

HARDIN COUNTY, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2016

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues				
Intergovernmental	\$ 4,195,575	\$ -	\$ -	\$ 4,195,575
Charges for services	45,402	-	-	45,402
Investment earnings	(1,128)	-	28,499	27,371
Miscellaneous revenue	14,239	-	-	14,239
Total Revenues	4,254,088	-	28,499	4,282,587
Expenditures				
General government	4,147,191	-	2,626	4,149,817
Recreation and culture	918,479	-	-	918,479
Debt service	-	647,438	-	647,438
Total Expenditures	5,065,670	647,438	2,626	5,715,734
Excess (Deficit) of Revenues over Expenditures	(811,582)	(647,438)	25,873	(1,433,147)
Other Financing Sources (Uses)				
Transfers in	841,283	647,438	-	1,488,721
Transfers out	(34)	-	(47,453)	(47,487)
Total Other Financing Sources (Uses)	841,249	647,438	(47,453)	1,441,234
Change in fund balances	29,667	-	(21,580)	8,087
Fund balance, July 1, 2015	170,944	-	1,462,345	1,633,289
Fund balance, June 30, 2016	\$ 200,611	\$ -	\$ 1,440,765	\$ 1,641,376

HARDIN COUNTY, KENTUCKY
 COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2016

	State Grants Fund	Federal Grants Fund	Library Fund	Total Nonmajor Special Revenue Funds
Assets:				
Cash and cash equivalents	\$ 10	\$ -	\$ 171,345	\$ 171,355
Investments	-	-	54,985	54,985
Intergovernmental receivable	1,890,044	-	-	1,890,044
Total Assets	<u>\$1,890,054</u>	<u>\$ -</u>	<u>\$ 226,330</u>	<u>\$ 2,116,384</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,890,044	\$ -	\$ 3,378	\$ 1,893,422
Accrued liabilities	-	-	22,351	22,351
Total Liabilities	1,890,044	-	25,729	1,915,773
Fund Balances:				
Restricted	10	-	200,601	200,611
Total Fund Balances	10	-	200,601	200,611
Total Liabilities and Fund Balances	<u>\$1,890,054</u>	<u>\$ -</u>	<u>\$ 226,330</u>	<u>\$ 2,116,384</u>

HARDIN COUNTY, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2016

	State Grants Fund	Federal Grants Fund	Library Fund	Total Nonmajor Special Revenue Funds
Revenues				
Intergovernmental	\$ 4,147,191	\$ -	\$ 48,384	\$ 4,195,575
Charges for services	-	-	45,402	45,402
Investment earnings	39	-	(1,167)	(1,128)
Miscellaneous revenue	-	-	14,239	14,239
Total Revenues	4,147,230	-	106,858	4,254,088
Expenditures				
General government	4,147,191	-	-	4,147,191
Recreation and culture	-	-	918,479	918,479
Total Expenditures	4,147,191	-	918,479	5,065,670
Excess (Deficit) of Revenues over Expenditures	39	-	(811,621)	(811,582)
Other Financing Sources (Uses)				
Transfers in	-	-	841,283	841,283
Transfers out	(34)	-	-	(34)
Total Other Financing Sources (Uses)	(34)	-	841,283	841,249
Change in fund balances	5	-	29,662	29,667
Fund balance, July 1, 2015	5	-	170,939	170,944
Fund balance, June 30, 2016	\$ 10	\$ -	\$ 200,601	\$ 200,611

HARDIN COUNTY, KENTUCKY
 COMBINING BALANCE SHEET - NONMAJOR PERMANENT FUNDS
 JUNE 30, 2016

	<u>Fife Fund</u>	<u>Pauline Walker & Powell Duff Fund</u>	<u>Pauline Walker & Powell Duff Library Trust</u>	<u>Total Nonmajor Permanent Funds</u>
Assets:				
Investments	\$ 512,831	\$ 831,916	\$ 96,018	\$ 1,440,765
Total Assets	<u>\$ 512,831</u>	<u>\$ 831,916</u>	<u>\$ 96,018</u>	<u>\$ 1,440,765</u>
Fund Balances:				
Nonspendable	\$ 270,000	\$ 459,526	\$ 75,000	\$ 804,526
Restricted	<u>242,831</u>	<u>372,390</u>	<u>21,018</u>	<u>636,239</u>
Total Fund Balances	<u>\$ 512,831</u>	<u>\$ 831,916</u>	<u>\$ 96,018</u>	<u>\$ 1,440,765</u>

HARDIN COUNTY, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR PERMANENT FUNDS
 YEAR ENDED JUNE 30, 2016

	Fife Fund	Pauline Walker & Powell Duff Fund	Pauline Walker & Powell Duff Library Trust	Total Nonmajor Permanent Funds
Revenues				
Investment earnings	\$ 5,641	\$ 18,269	\$ 4,589	\$ 28,499
Total Revenues	5,641	18,269	4,589	28,499
Expenditures				
General government	(133)	2,759	-	2,626
Total Expenditures	(133)	2,759	-	2,626
Excess (Deficit) of Revenues over Expenditures	5,774	15,510	4,589	25,873
Other Financing Sources (Uses)				
Transfers out	(3,009)	(43,161)	(1,283)	(47,453)
Total Other Financing Sources (Uses)	(3,009)	(43,161)	(1,283)	(47,453)
Change in fund balances	2,765	(27,651)	3,306	(21,580)
Fund balance, July 1, 2015	510,066	859,567	92,712	1,462,345
Fund balance, June 30, 2016	<u>\$ 512,831</u>	<u>\$ 831,916</u>	<u>\$ 96,018</u>	<u>\$ 1,440,765</u>

INDEPENDENT AUDITOR'S 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



INDEPENDENT AUDITOR'S 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

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

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 units, each major fund and the aggregate remaining fund information of Hardin County, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Hardin County, Kentucky's basic financial statements and have issued our report thereon dated December 20, 2016. Our report includes a reference to other auditors. Other auditors audited the financial statements of 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 or other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

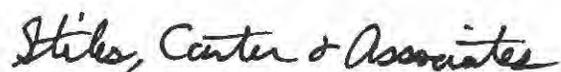
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Hardin County, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



Certified Public Accountants
Elizabethtown, Kentucky
December 20, 2016

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

HARDIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

Appendix A



James E. Roberts
Deputy Judge/Executive

Lisa Pearman
Treasurer

Hardin County Fiscal Court

Judge/Executive Harry L. Berry

P.O. Box 568, Elizabethtown, Kentucky 42702

Magistrates

*Roy Easter
Doug Goodman
Lisa Williams
Fred Clem, Jr.
Bill Wiseman
E.G. Thompson
Dwight Morgan
Garry King*

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

HARDIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

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
Hardin County Judge/Executive

Lisa Pearman
Hardin County Treasurer