

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

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



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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
MARSHALL COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	6
NOTES TO FINANCIAL STATEMENT	10
BUDGETARY COMPARISON SCHEDULES.....	22
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES.....	31
SCHEDULE OF CAPITAL ASSETS.....	33
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS.....	34
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	36
SCHEDULE OF FINDINGS AND RESPONSES	39
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



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To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Kevin Neal, Marshall County Judge/Executive

Members of the Marshall County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

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

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Marshall County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Marshall County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the

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Other Matters (Continued)

Supplementary Information (Continued)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2018 on our consideration of the Marshall County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marshall County Fiscal Court's internal control over financial reporting and compliance.

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

- 2017-001 Fiscal Court Failed To Report All Receipts And Disbursements Associated With All County Activity
- 2017-002 Decentralized Receipts Were Not Properly Turned Over To The County Treasurer
- 2017-003 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County's Schedule of Capital Assets
- 2017-004 Fiscal Court Did Not Fix Reasonable Compensation For All Employees In Accordance With KRS 64.531
- 2017-005 The Marshall County Detention Center Has A Lack Of Segregation Of Duties Over Jail Commissary Operations

Respectfully submitted,



Percy and Gray, PSC
 Certified Public Accountants

June 4, 2018

MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2017

Fiscal Court Members:

Kevin Neal	County Judge/Executive
Bob Gold	Commissioner
Johnny Bowlin	Commissioner
Dr. Rick Cocks	Commissioner

Other Elected Officials:

Jeff Edwards	County Attorney
Roger Ford	Jailer
Tim York	County Clerk
Carla Marshall	Circuit Court Clerk
Kevin Byars	Sheriff
Tony Henson	Property Valuation Administrator
Mitchell Lee	Coroner

Appointed Personnel:

Emily Martin	County Treasurer
Karen Freeman	Finance Officer
Brenda Edwards	Occupational Tax Administrator
Brad Warning	Deputy County Judge/Executive

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds				
	General Fund	Road Fund	Jail Fund	Grant Fund	Emergency 911 Fund
RECEIPTS					
Taxes	\$ 2,634,604	\$	\$	\$	\$ 187,227
In Lieu Tax Payments	866,522				
Excess Fees	274,788				
Licenses and Permits	77,736				
Intergovernmental	1,856,933	2,943,045	1,802,688		287,552
Charges for Services	30,125	10,905	16,905		
Miscellaneous	437,287	172,518	116,885	411	26,345
Interest	12,414	10,702	1,560		1,206
Total Receipts	<u>6,190,409</u>	<u>3,137,170</u>	<u>1,938,038</u>	<u>411</u>	<u>502,330</u>
DISBURSEMENTS					
General Government	5,702,628				
Protection to Persons and Property	509,516		1,593,192		661,768
General Health and Sanitation	220,269				
Social Services	125,660				
Recreation and Culture	804,885				
Roads		3,143,948			
Other Transportation Facilities and Services					
Debt Service	29,419	19,763			
Capital Projects	450,000				
Administration	890,145	507,928	603,601		171,786
Total Disbursements	<u>8,732,522</u>	<u>3,671,639</u>	<u>2,196,793</u>		<u>833,554</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,542,113)</u>	<u>(534,469)</u>	<u>(258,755)</u>	<u>411</u>	<u>(331,224)</u>
Other Adjustments to Cash (Uses)					
Change in Payroll Revolving Account	40,419				
Transfers From Other Funds	2,811,161	582,000	204,000		330,625
Transfers To Other Funds				(1,161)	
Total Other Adjustments to Cash (Uses)	<u>2,851,580</u>	<u>582,000</u>	<u>204,000</u>	<u>(1,161)</u>	<u>330,625</u>
Net Change in Fund Balance	309,467	47,531	(54,755)	(750)	(599)
Fund Balance - Beginning	833,039	807,860	267,149	1,161	31,529
Fund Balance - Ending	<u>\$ 1,142,506</u>	<u>\$ 855,391</u>	<u>\$ 212,394</u>	<u>\$ 411</u>	<u>\$ 30,930</u>
Composition of Fund Balance					
Bank Balance	\$ 970,748	\$ 968,639	\$ 265,741	\$ 411	\$ 32,228
Payroll Revolving Reconciled Balance	205,494				
Deposits In transit					
Less: Outstanding Checks	<u>(33,736)</u>	<u>(113,248)</u>	<u>(53,347)</u>		<u>(1,298)</u>
Fund Balance - Ending	<u>\$ 1,142,506</u>	<u>\$ 855,391</u>	<u>\$ 212,394</u>	<u>\$ 411</u>	<u>\$ 30,930</u>

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

MARSHALL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017
(Continued)

<u>Budgeted Funds</u>			
<u>Occupational Tax Administrator Fund</u>	<u>Veterans Van Fund</u>	<u>Alcohol Beverage Control Fund</u>	<u>Building Inspection Fund</u>
\$ 6,039,280	\$	\$ 278,678	\$
		33,415	265,615
		4,646	
25,213	3,571		50
<u>6,064,493</u>	<u>3,605</u>	<u>316,889</u>	<u>265,791</u>
99,411		63,281	
		173,988	244,514
	7,510		
<u>99,411</u>	<u>7,510</u>	<u>26,390</u>	<u>4,590</u>
<u>5,965,082</u>	<u>(3,905)</u>	<u>53,230</u>	<u>16,687</u>
(3,927,125)	500		
<u>(3,927,125)</u>	<u>500</u>		
2,037,957	(3,405)	53,230	16,687
2,918,383	3,408	12,353	16,974
<u>\$ 4,956,340</u>	<u>\$ 3</u>	<u>\$ 65,583</u>	<u>\$ 33,661</u>
\$ 4,977,659	\$ 4,172	\$ 65,773	\$ 37,201
			439
<u>(21,319)</u>	<u>(4,169)</u>	<u>(190)</u>	<u>(3,979)</u>
<u>\$ 4,956,340</u>	<u>\$ 3</u>	<u>\$ 65,583</u>	<u>\$ 33,661</u>

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

MARSHALL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017
(Continued)

<u>Unbudgeted Funds</u>			
<u>Public Properties Corporation Justice Center Debt Service Fund</u>	<u>Public Properties Corporation Justice Center Debt Service Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Fund</u>
\$	\$	\$	\$ 9,139,789
			866,522
			274,788
			376,766
497,500			7,387,718
			62,581
		41,708	798,775
17	1,659	273	53,354
<u>497,517</u>	<u>1,659</u>	<u>41,981</u>	<u>18,960,293</u>
			5,865,320
			3,182,978
			220,269
			125,660
		49,684	854,569
			3,143,948
			7,510
537,900	272,465		859,547
			450,000
			2,204,440
<u>537,900</u>	<u>272,465</u>	<u>49,684</u>	<u>16,914,241</u>
<u>(40,383)</u>	<u>(270,806)</u>	<u>(7,703)</u>	<u>2,046,052</u>
			40,419
			3,928,286
			<u>(3,928,286)</u>
			40,419
(40,383)	(270,806)	(7,703)	2,086,471
41,461	288,202	223,264	5,444,783
<u>\$ 1,078</u>	<u>\$ 17,396</u>	<u>\$ 215,561</u>	<u>\$ 7,531,254</u>
\$ 1,078	\$ 17,396	\$ 216,231	\$ 7,557,277
			205,494
			439
		(670)	(231,956)
<u>\$ 1,078</u>	<u>\$ 17,396</u>	<u>\$ 215,561</u>	<u>\$ 7,531,254</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
NOTE 2.	DEPOSITS	13
NOTE 3.	TRANSFERS.....	14
NOTE 4.	HEALTH REIMBURSEMENT ACCOUNT/FLEXIBLE SPENDING ACCOUNT	14
NOTE 5.	RECEIVABLES	14
NOTE 6.	LONG-TERM DEBT	15
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	17
NOTE 8.	DEFERRED COMPENSATION.....	19
NOTE 9.	INSURANCE.....	20
NOTE 10.	LANDFILL CLOSURE AND POST-CLOSURE COSTS	20
NOTE 11.	PAYROLL REVOLVING ACCOUNT	20
NOTE 12.	CONDUIT DEBT.....	20
NOTE 13.	TAX ABATEMENT	20

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The following entity: The Marshall County Refuse Disposal District would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However under the regulatory basis it is no longer a required component of the reporting entity. Audits of the following entity can be obtained from the Marshall County Fiscal Court: 1101 Main Street, Benton, Kentucky 42025.

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

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

Emergency 911 Fund - The primary purpose of this fund is to account for the emergency dispatch services. The primary sources of receipts for this fund are 911 service fees as well as other fees received from the state.

Occupational Tax Administrator Fund - The primary purpose of this fund is to account for occupational tax receipts. Occupational Tax receipts are recorded in this fund and then transferred to other operating funds as needed.

Veterans Van Fund -The fund is used to account for receipts and disbursements associated with the Veterans' Van project. The primary source of receipts for this fund is donations.

Alcohol Beverage Control Fund - The fund is used to account for receipts and disbursements associated with the liquor licensing. The primary source of receipts for this fund is taxes and licenses.

Building Inspection Fund - The fund is used to account for receipts and disbursements associated with the building inspection license. The primary source of receipts for this fund is fees collected for building inspections licenses.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Justice Center Debt Service Fund - The purpose of this fund is to account for debt service requirements of the general obligation bonds of the Public Properties Corporation.

Public Properties Corporation Justice Center Debt Service Fund - The purpose of this fund is to account for the bond redemption fund of the Public Properties Corporation.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the Public Properties Corporation Justice Center Debt Service Fund or the Public Properties Corporation Justice Center Capital Projects Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Marshall County Elected Officials

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

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

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

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

H. Tax Abatements

GASB Statement No. 77 - Tax Abatement Disclosures is effective for reporting periods beginning after December 15, 2015.

The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public presently. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

Note 2. Deposits

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

Custodial Credit Risk - Deposits

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

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

Note 3. Transfers

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

	Federal Grant Fund	Occupational Tax Administrator Fund	Total Transfers In
General Fund	\$ 1,161	\$ 2,810,000	\$ 2,811,161
Road Fund		582,000	582,000
Jail Fund		204,000	204,000
Emergency 911 Fund		330,625	330,625
Veterans Van Fund		500	500
	<u>\$ 1,161</u>	<u>\$ 3,927,125</u>	<u>\$ 3,928,286</u>
Total Transfers Out			

Reason for transfers:

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

Note 4. Health Reimbursement Account/Flexible Spending Account

The Marshall County Fiscal Court, in Fiscal Court Order One, established a health reimbursement account on October 11, 2011 to provide employees an additional health benefit. The county has contracted with Febco Inc., a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing funds, determined by health insurance coverage, each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deductions. The account balance as of June 30, 2017 was \$6,635.

Note 5. Receivables

On November 30, 2012, Marshall County entered into an agreement with Kentucky Association of Counties Financing Corporation for the purpose of the construction of the arts commission building. The principal amount was \$320,000 at an effective interest rate of 3.656% for thirty years. A verbal agreement between the Marshall County Arts Commission and Marshall County Fiscal Court exists stating that debt is paid by the county and the arts Commission in turn reimburses the county yearly. Ownership will go to the Marshall County Arts Commission at end of debt service term. As of June 30, 2017, the arts commission is in compliance with the verbal agreement with the county.

Marshall County makes noninterest bearing loans to Marshall County Sanitation Districts #1 and #2 for various operating expenses. As of June 30, 2016, the county had loaned \$13,190 and \$24,465 to District #1 and #2, respectively. During the fiscal year ended June 30, 2017, the county loaned \$34,154 and \$468,189 to District #1 and #2, respectively. The county received payments on these loans of \$28,404 and \$16,407 from District #1 and #2, respectively. District #1 and #2 owed the county \$18,940 and \$476,247, respectively.

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

Note 6. Long-term Debt

A. General Obligation Refunding Bonds, Series 2012

On April 3, 2012, the Marshall County Public Properties Corporation (Corporation) issued General Obligation Refunding Bonds, Series 2012, in the amount of \$4,815,000 for the purpose of paying the cost of constructing a new county justice center facility and the cost of the issuance of the bonds. Principal payments are due March 1, beginning in 2013, and interest, which is variable at 1%-2.5%, is payable semiannually on March 1 and September 1, beginning September 1, 2012. The maturity date of the issue is March 1, 2022. The outstanding balance as of June 30, 2017 was \$2,510,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2018	\$ 480,000	\$ 58,500
2019	490,000	48,900
2020	500,000	37,875
2021	515,000	26,000
2022	<u>525,000</u>	<u>13,125</u>
Totals	<u>\$ 2,510,000</u>	<u>\$ 184,400</u>

The Corporation entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that AOC agrees to pay a portion of the debt service requirements with the remaining portion to be paid by the Corporation.

The bonds are secured by a foreclosure first mortgage lien on the property and an assignment by the Corporation of its rights, title and interest in the lease with AOC.

B. Financing Obligation – Blacktop Patcher

On October 5, 2012, Marshall County entered into an agreement with KACoLT for the purchase of a blacktop patcher for \$64,200. The terms of this agreement consist of sixty principal and interest payments due monthly at an interest rate of 3.604%. This debt was paid off in fiscal year 2017.

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

Note 6. Long-term Debt (Continued)

C. Financing Obligation – Arts Commission Building

On November 30, 2012, Marshall County entered into an agreement with the Kentucky Association of Counties Finance Corporation for the purpose of the construction of the arts commission building. The terms of this agreement consist of monthly principal and interest payments for a term of thirty years at an interest rate of 3.656%. A verbal agreement exists between the Marshall County Arts Commission and Marshall County Fiscal Court (see Note 5) agreeing that the county is reimbursed yearly for the debt payments made and at maturity date the building will belong to the Marshall County Arts Commission. The principal balance as of June 30, 2017 was \$289,167. Future principal and interest payments are as follows:

Fiscal Year Ended		
June 30	Principal	Interest
2018	9,167	8,924
2019	10,000	9,520
2020	10,000	9,295
2021	10,000	9,070
2022	10,000	8,840
2023-2027	50,000	40,215
2028-2032	50,000	32,520
2033-2037	57,500	24,070
2038-2042	75,000	12,075
2043	7,500	506
Totals	<u>\$ 289,167</u>	<u>\$ 155,035</u>

D. Financing Obligation – Water Towers

The Marshall County Fiscal Court entered into an Assistance Agreement with the Kentucky Infrastructure Authority in the amount of \$1,075,000 for the construction of two 150,000 gallon elevated water storage tanks. The project was financed with a loan of \$275,000 and a grant of \$800,000 for a total cost not to exceed \$1,075,000. Upon completion of the project, the fiscal court entered into a loan with the Authority for repayment of the \$275,000 on June 1, 2017. Principal and interest payments were to be due June 1 and December 1, beginning December 1, 2017. Interest is payable at a rate of 3.0%. The maturity date of the issue is June 1, 2036. This debt was paid off in fiscal year 2017.

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

Note 6. Long-term Debt (Continued)

E. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Refunding Bonds	\$ 2,980,000	\$	\$ 470,000	\$ 2,510,000	\$ 480,000
Financing Obligations	591,103		301,937	289,166	9,167
Total Long-term Debt	<u>\$ 3,571,103</u>	<u>\$ 0</u>	<u>\$ 771,937</u>	<u>\$ 2,799,166</u>	<u>\$ 489,167</u>

Note 7. Employee Retirement System

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

The county's contribution for FY 2015 was \$1,496,774, FY 2016 was \$1,451,162 and FY 2017 was \$1,300,899.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

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

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

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

Note 7. Employee Retirement System (Continued)

The county's contribution rate for nonhazardous employees was 18.68 percent.

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute eight percent of their annual creditable compensation and also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the 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 hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for hazardous employees was 31.06 percent.

Health Insurance Coverage

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

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

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%

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

Note 7. Employee Retirement System (Continued)

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

Hazardous employees whose participation began on or after July 1, 2003, earn 15 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, the 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.

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 8. Deferred Compensation

On February 4, 2000, the Marshall County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

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

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.

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

Note 9. Insurance

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

Note 10. Landfill Closure and Post-Closure Costs

In 2002, the legislature passed House Bill No. 174 that among other things, provided for state assumption of responsibility for the costs of closure and remedial obligations for inactive solid waste landfills that ceased accepting waste prior to July 1, 1992. This is implemented as amendments to KRS 244, Subchapter 43. The Kentucky Division of Waste Management (Division) has determined that the Marshall County Landfill qualifies under this program for state assistance. However, as a necessary condition for performing this work, the Division required a legal right of entry granting permission for assessment and construction activities on the subject property. On February 8, 2005, the Marshall County Judge/Executive signed the right of entry to the Commonwealth of Kentucky and its authorized agents the right to enter upon this land for the purpose of performing such activities.

Note 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2017, was added to the general fund cash balance for financing reporting purposes.

Note 12. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to an industrial authority for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Marshall County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2017, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 13. Tax Abatement

The occupational tax was abated under the authority of the Kentucky Economic Development Finance Authority. Arkema, Inc. is eligible to receive this tax abatement due to a written agreement with the Kentucky Economic Development Finance Authority approved under the Kentucky Industrial Revitalization Act. The taxes are abated by a refund of the employees' occupational tax withheld. Recapture of abated taxes can occur by Arkema, Inc. failing to maintain the required 240 full-time employees. Arkema, Inc. made the following commitment: to maintain a minimum of 240 full-time employees. For fiscal year ended June 30, 2017, Marshall County Fiscal Court abated occupational taxes totaling \$61,961.

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,357,000	\$ 2,431,700	\$ 2,634,604	\$ 202,904
In Lieu Tax Payments	788,500	788,500	866,522	78,022
Excess Fees	205,000	274,788	274,788	
Licenses and Permits	75,000	75,000	77,736	2,736
Intergovernmental	1,592,677	1,856,999	1,856,933	(66)
Charges for Services	50,000	50,000	30,125	(19,875)
Miscellaneous	163,970	449,112	437,287	(11,825)
Interest	5,000	5,000	12,414	7,414
Total Receipts	<u>5,237,147</u>	<u>5,931,099</u>	<u>6,190,409</u>	<u>259,310</u>
DISBURSEMENTS				
General Government	5,983,125	6,367,825	5,702,628	665,197
Protection to Persons and Property	482,950	530,566	509,516	21,050
General Health and Sanitation	164,800	272,570	220,269	52,301
Social Services	131,200	136,515	125,660	10,855
Recreation and Culture	783,300	829,879	804,885	24,994
Debt Service	81,970	75,165	29,419	45,746
Capital Projects	330,000	450,000	450,000	
Administration	1,653,781	1,710,523	890,145	820,378
Total Disbursements	<u>9,611,126</u>	<u>10,373,043</u>	<u>8,732,522</u>	<u>1,640,521</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(4,373,979)</u>	<u>(4,441,944)</u>	<u>(2,542,113)</u>	<u>1,899,831</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>3,793,756</u>	<u>3,793,756</u>	<u>2,811,161</u>	<u>(982,595)</u>
Total Other Adjustments to Cash (Uses)	<u>3,793,756</u>	<u>3,793,756</u>	<u>2,811,161</u>	<u>(982,595)</u>
Net Change in Fund Balance	(580,223)	(648,188)	269,048	917,236
Fund Balance Beginning	<u>600,000</u>	<u>667,965</u>	<u>667,964</u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 19,777</u>	<u>\$ 19,777</u>	<u>\$ 937,012</u>	<u>\$ 917,235</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,573,304	\$ 2,540,698	\$ 2,943,045	\$ 402,347
Charges For Services	200	8,629	10,905	2,276
Miscellaneous	5,500	167,757	172,518	4,761
Interest	2,000	6,200	10,702	4,502
Total Receipts	<u>1,581,004</u>	<u>2,723,284</u>	<u>3,137,170</u>	<u>413,886</u>
DISBURSEMENTS				
Roads	3,067,123	4,123,609	3,143,948	979,661
Debt Service		19,763	19,763	
Administration	803,100	926,991	507,928	419,063
Total Disbursements	<u>3,870,223</u>	<u>5,070,363</u>	<u>3,671,639</u>	<u>1,398,724</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,289,219)</u>	<u>(2,347,079)</u>	<u>(534,469)</u>	<u>1,812,610</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>1,539,219</u>	<u>1,539,219</u>	<u>582,000</u>	<u>(957,219)</u>
Total Other Adjustments to Cash (Uses)	<u>1,539,219</u>	<u>1,539,219</u>	<u>582,000</u>	<u>(957,219)</u>
Net Change in Fund Balance	(750,000)	(807,860)	47,531	855,391
Fund Balance Beginning	<u>750,000</u>	<u>807,860</u>	<u>807,860</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 855,391</u>	<u>\$ 855,391</u>

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

JAIL FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,445,000	\$ 1,450,000	\$ 1,802,688	\$ 352,688
Charges for Services	13,500	13,500	16,905	3,405
Miscellaneous	56,000	96,740	116,885	20,145
Interest	1,000	1,000	1,560	560
Total Receipts	<u>1,515,500</u>	<u>1,561,240</u>	<u>1,938,038</u>	<u>376,798</u>
DISBURSEMENTS				
Protection to Persons and Property	1,606,050	1,699,365	1,593,192	106,173
Administration	712,300	806,874	603,601	203,273
Total Disbursements	<u>2,318,350</u>	<u>2,506,239</u>	<u>2,196,793</u>	<u>309,446</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(802,850)</u>	<u>(944,999)</u>	<u>(258,755)</u>	<u>686,244</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>677,850</u>	<u>677,850</u>	<u>204,000</u>	<u>(473,850)</u>
Total Other Adjustments to Cash (Uses)	<u>677,850</u>	<u>677,850</u>	<u>204,000</u>	<u>(473,850)</u>
Net Change in Fund Balance	(125,000)	(267,149)	(54,755)	212,394
Fund Balance Beginning (Restated)	<u>125,000</u>	<u>267,149</u>	<u>267,149</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 212,394</u>	<u>\$ 212,394</u>

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

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ -	\$ -	\$ 411	\$ 411
Total Receipts			411	411
DISBURSEMENTS				
Capital Projects		1,161		1,161
Total Disbursements		1,161		1,161
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(1,161)	411	1,572
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(1,161)	(1,161)
Total Other Adjustments to Cash (Uses)			(1,161)	(1,161)
Net Change in Fund Balance		(1,161)	(750)	411
Fund Balance Beginning		1,161	1,161	
Fund Balance - Ending	\$ 0	\$ 0	\$ 411	\$ 411

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

	E911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 180,000	\$ 180,000	\$ 187,227	\$ 7,227
Intergovernmental	148,000	287,440	287,552	112
Miscellaneous	12,440	26,290	26,345	55
Interest	350	850	1,206	356
Total Receipts	<u>340,790</u>	<u>494,580</u>	<u>502,330</u>	<u>7,750</u>
DISBURSEMENTS				
Protection to Persons and Property	440,000	662,993	661,768	1,225
Administration	233,415	175,701	171,786	3,915
Total Disbursements	<u>673,415</u>	<u>838,694</u>	<u>833,554</u>	<u>5,140</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(332,625)</u>	<u>(344,114)</u>	<u>(331,224)</u>	<u>12,890</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>312,625</u>	<u>312,625</u>	<u>330,625</u>	<u>18,000</u>
Total Other Adjustments to Cash (Uses)	<u>312,625</u>	<u>312,625</u>	<u>330,625</u>	<u>18,000</u>
Net Change in Fund Balance	(20,000)	(31,489)	(599)	30,890
Fund Balance Beginning	<u>20,000</u>	<u>31,529</u>	<u>31,529</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 40</u>	<u>\$ 30,930</u>	<u>\$ 30,890</u>

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

	OCCUPATIONAL TAX ADMINISTRATOR FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 4,500,000	\$ 4,500,000	\$ 6,039,280	\$ 1,539,280
Interest	10,000	10,000	25,213	15,213
Total Receipts	<u>4,510,000</u>	<u>4,510,000</u>	<u>6,064,493</u>	<u>1,554,493</u>
DISBURSEMENTS				
General Government	115,000	115,000	99,411	15,589
Administration	511,960	980,343		980,343
Total Disbursements	<u>626,960</u>	<u>1,095,343</u>	<u>99,411</u>	<u>995,932</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>3,883,040</u>	<u>3,414,657</u>	<u>5,965,082</u>	<u>2,550,425</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(6,333,040)</u>	<u>(6,333,040)</u>	<u>(3,927,125)</u>	<u>2,405,915</u>
Total Other Adjustments to Cash (Uses)	<u>(6,333,040)</u>	<u>(6,333,040)</u>	<u>(3,927,125)</u>	<u>2,405,915</u>
Net Change in Fund Balance	(2,450,000)	(2,918,383)	2,037,957	4,956,340
Fund Balance Beginning	<u>2,450,000</u>	<u>2,918,383</u>	<u>2,918,383</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,956,340</u>	<u>\$ 4,956,340</u>

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

VETERANS VAN FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 3,000	\$ 5,570	\$ 3,571	\$ (1,999)
Interest	10	10	34	24
Total Receipts	<u>3,010</u>	<u>5,580</u>	<u>3,605</u>	<u>(1,975)</u>
DISBURSEMENTS				
Other Transportation Facilities and Services	6,510	7,510	7,510	
Administration		1,978		1,978
Total Disbursements	<u>6,510</u>	<u>9,488</u>	<u>7,510</u>	<u>1,978</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,500)</u>	<u>(3,908)</u>	<u>(3,905)</u>	<u>3</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	500	500	500	
Total Other Adjustments to Cash (Uses)	<u>500</u>	<u>500</u>	<u>500</u>	
Net Change in Fund Balance	(3,000)	(3,408)	(3,405)	3
Fund Balance Beginning	<u>3,000</u>	<u>3,408</u>	<u>3,408</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3</u>	<u>\$ 3</u>

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

ALCOHOL BEVERAGE CONTROL FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 450,000	\$ 450,000	\$ 278,678	\$ (171,322)
Licenses and Permits	15,000	15,000	33,415	18,415
Charges for Services			4,646	4,646
Interest			150	150
Total Receipts	<u>465,000</u>	<u>465,000</u>	<u>316,889</u>	<u>(148,111)</u>
DISBURSEMENTS				
General Government	92,710	91,255	63,281	27,974
Protection to Persons and Property	303,790	303,790	173,988	129,802
Administration	68,500	82,309	26,390	55,919
Total Disbursements	<u>465,000</u>	<u>477,354</u>	<u>263,659</u>	<u>213,695</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(12,354)</u>	<u>53,230</u>	<u>65,584</u>
Net Change in Fund Balance		<u>(12,354)</u>	<u>53,230</u>	<u>65,584</u>
Fund Balance Beginning		<u>12,354</u>	<u>12,353</u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 65,583</u>	<u>\$ 65,583</u>

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

BUILDING INSPECTION FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	105,000	266,500	265,615	(885)
Intergovernmental	5,910	5,910		(5,910)
Miscellaneous			50	50
Interest			126	126
Total Receipts	<u>110,910</u>	<u>272,410</u>	<u>265,791</u>	<u>(6,619)</u>
DISBURSEMENTS				
Protection to Persons and Property	114,600	293,000	244,514	48,486
Administration	5,400	5,400	4,590	810
Total Disbursements	<u>120,000</u>	<u>298,400</u>	<u>249,104</u>	<u>49,296</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(9,090)</u>	<u>(25,990)</u>	<u>16,687</u>	<u>42,677</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>9,090</u>	<u>9,090</u>		<u>(9,090)</u>
Total Other Adjustments to Cash (Uses)	<u>9,090</u>	<u>9,090</u>		<u>(9,090)</u>
Net Change in Fund Balance		(16,900)	16,687	33,587
Fund Balance Beginning		<u>16,900</u>	<u>16,974</u>	<u>74</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 33,661</u>	<u>\$ 33,661</u>

MARSHALL COUNTY
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON SCHEDULES

June 30, 2017

Note 1. Budgetary Information

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

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

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

Note 2. Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ 2,811,161
Change in Payroll Revolving Account balance	<u>40,419</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ 2,851,580</u>
Fund Balance Beginning - Budgetary Basis	\$ 667,964
Payroll Revolving Account - Prior year balance	<u>165,075</u>
Total Beginning Fund Balance - Regulatory Basis	<u>\$ 833,039</u>
Fund Balance Ending - Budgetary Basis	\$ 937,012
Payroll Revolving Account - Prior year balance	165,075
Change in Payroll Revolving Account balance	<u>40,419</u>
Total Fund Balance Ending (Restated) - Regulatory Basis	<u>\$ 1,142,506</u>

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

For The Year Ended June 30, 2017

MARSHALL COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 2,177,113	\$	\$ 85,068	\$ 2,092,045
Buildings and Building Improvements	15,802,409	-		15,802,409
Vehicles and Equipment (Restated)	7,574,043	783,167	81,310	8,275,900
Infrastructure	15,536,395	1,156,399		16,692,794
	<u>\$ 41,089,960</u>	<u>\$ 1,939,566</u>	<u>\$ 166,378</u>	<u>\$ 42,863,148</u>

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

June 30, 2017

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Vehicles and Equipment	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

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



PEEROY AND GRAY, PSC

Certified Public Accountants

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Honorable Chyrrill Miller, Former Marshall County Judge/Executive
The Honorable Kevin Neal, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Marshall County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Marshall County Fiscal Court's financial statement and have issued our report thereon dated June 4, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-003 and 2017-004 to be material weaknesses.

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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-005 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Marshall County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002 and 2017-004.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Percy and Gray, PSC
Certified Public Accountants

June 4, 2018

**MARSHALL COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS

2017-001 Fiscal Court Failed To Report All Receipts And Disbursements Associated With All County Activity

This is a repeat finding and was included in the prior year report as finding 2016-001. Marshall County had one bank account that was excluded from the County's 4th Quarter Financial Report and budget process: the Marshall County Animal Shelter. Due to the nature of this account and sources of funding, the County elected not to include the corresponding receipts and disbursements in the County's budget process or on the Quarterly Financial Reports. As a result, the County's Quarterly Financial Reports were misstated.

The Animal Shelter Director deposits all cash and checks received into this account no more than once a week. Receipts are given in triplicate, and the money is kept locked. She has a debit card to make purchases, but does not have access to the checks. Disbursements are made without Fiscal Court approval and two of twelve disbursements tested showed \$21.94 paid in sales tax. The Treasurer does the bank reconciliation monthly and prepares a financial statement. Several times a month a check is written from this account into the General Fund for adoption fees.

According to KRS 68.020 "The County Treasurer shall receive and receipt for all money due the county from its collecting officers or from any other person whose duty it is to pay money into the county treasurer, and shall disburse such money in such manor and for such purpose as may be authorized by appropriate authority of the fiscal court. He shall not disburse any money received by him for any purpose other than that for which it was collected and paid over to him, and when he pays out money he shall take a receipt therefore. All warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive." Furthermore, having "off the books" accounts without fiscal court oversight leaves these funds susceptible to misappropriation.

We recommend that the county Comply with KRS 68.020 by including all receipts and disbursements associated with the county in the budget process and on the Quarterly Financial Reports. By doing so, the Fiscal Court can exercise its proper authority over said receipts and disbursements and reduce any risks associated with them.

Views of Responsible Official and Planned Corrective Action: County Judge/Executive's Response: This account is viewed the same as the Park Foundation account. It has its own Federal ID number and generates income off of county owned property, however, it does not turn over all collections to the county. They pay state tax on items because they are not tax exempt.

2017-002 Decentralized Receipts Were Not Properly Turned Over To The County Treasurer

This is a repeat finding and was included in the prior year report as finding 2016-002. The following finding was noted with the County's decentralized receipts:

- Fees collected at the Marshall County Animal Shelter were turned over to the County Treasurer two or three times a month.

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

FINANCIAL STATEMENT FINDINGS (Continued)

**2017-002 Decentralized Receipts Were Not Properly Turned Over To The County Treasurer
(Continued)**

KRS 68.210 states “The administration of the county uniform budget system shall be under the supervision of the state local finance officer...” Minimum accounting requirements pursuant to KRS 68.210 include daily deposits intact into a federally insured banking institution. Because the county allowed decentralized receipts to be turned over to the County Treasurer two or three times a month, the County was not in compliance with KRS 68.210. Furthermore, not depositing receipts regularly leaves them more susceptible to misappropriation and theft.

We recommend the Fiscal Court comply with KRS 68.210 by requiring all funds collected in locations other than the Treasurer’s office to be deposited on a daily basis.

Views of Responsible Official and Planned Corrective Action: County Judge/Executive’s Response: We will follow the recommendation of the auditors. We will implement internal policy to have staff deposit money daily.

2017-003 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County’s Schedule Of Capital Assets

This is a repeat finding and was included in the prior year report as finding 2016-004. Material weaknesses exist over the reporting of the capital assets of Marshall County. Procedures are not followed to monitor the purchase of capital assets from the purchase, to inclusion on the county’s schedule of capital assets and finally, to the inclusion on the county’s insurance policy, if necessary. The county’s schedule of capital assets for the audit period failed to recognize all asset purchases that occurred throughout the year. Also, many entries on the schedule of capital assets did not include serial/identification numbers that would make tracing items difficult. Finally, no annual inventory of capital assets was performed.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. By having weak internal controls over capital assets, they are left vulnerable to misappropriation or misstatement. Because the county failed to emphasize strong internal controls over the reporting of capital assets, these misstatements were able to occur without detection.

In order to strengthen the county’s internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of each county asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired and compared to inventory on file with the insurance company. We also recommend the county conduct a physical inspection of the county’s assets at the end of each year to make comparisons to the county’s list of inventoried assets and insurance listings.

Views of Responsible Official and Planned Corrective Action: County Judge/Executive’s Response: On March 7, 2017 Gall’s presented a website that was a solution that included an asset management plan. Fiscal Court did not pass that solution. My office then found and implemented Asset Tiger and began using it in May 2017. We have continued to build within this management program and have made great strides in our county asset management plan.

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

FINANCIAL STATEMENT FINDINGS (Continued)

2017-004 The Fiscal Court Did Not Fix Reasonable Compensation For All Employees In Accordance With KRS 64.530

During our test of payroll, we noted that the Building Inspector received a paycheck only a couple of times a year for the inspections he does for Fiscal Court. He does not turn in a timecard for the work he does, but is paid on a commission basis. He is not enrolled in the County Employee Retirement System. According to his contract approved by Fiscal Court on Nov. 5, 2013, retroactive to July 1, 2013, he shall receive 80% of the receipts collected for the inspections. In 2016, his W-2 showed compensation of \$120,612, which makes him the highest paid employee of Fiscal Court.

There was a subsequent contract, signed on May 8, 2015, which states “Electrical inspector shall be compensated solely by the electrical contractor of the owner of the property being inspected or the person firm or corporation installing any new electrical work. The court shall in no way compensate electrical inspector for electrical inspection services and neither shall county be responsible for the collection of any unpaid electrical inspection fees.” If the intent of this agreement was for the electrical inspector to be paid directly by the contractor, then this should be investigated further. All inspection fees should be deposited into the Fiscal Court bank account for the Building Inspection Fund.

Fiscal Court is in violation of KRS 64.530 because the salary of the building inspector is not fixed. Because he does not record his time on a timesheet there is no way of knowing if he works enough hours to qualify for the County Employee Retirement System. The compensation for the building inspector appears to be excessive and unreasonable.

We recommend that the building inspector’s compensation should be further investigated. All inspection fees should be deposited into the Fiscal Court bank account for the Building Inspection Fund and the building inspector’s compensation should be fixed in accordance with KRS 64.530.

Views of Responsible Official and Planned Corrective Action: County Judge/Executive’s response: The fiscal court has a contract with this employee. He is paid per that contract.

2017-005 The Marshall County Detention Center Has A Lack Of Segregation Of Duties Over Jail Commissary Operations

This is a repeat finding and was included in the prior year report as finding 2016-005. The Marshall County Detention Center lacks adequate segregation of duties over the jail commissary operations. Due to a limited number of staff and the diversity of operations, the bookkeeper is required to perform multiple tasks such as posting to the receipts and disbursements ledgers, preparing bank deposits, preparing bank reconciliations, and preparing financial reports.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by staff, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

**MARHALL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2017-005 The Marshall County Detention Center Has A Lack Of Segregation Of Duties Over Jail Commissary Operations (Continued)

To adequately prevent the misappropriation of assets, we recommend the Jailer separate the duties of collecting receipts, deposit preparation, bank reconciliations and other accounting functions. If these duties cannot be separated due to limited staff, then strong oversight should be provided to employee or employees responsible for these duties.

Views of Responsible Official and Planned Corrective Action: Jail Bookkeeper's Response: We will be reviewing and initialing documents and receipts by at least two different people and I, Roger Ford Marshall County Jailer will approve.

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

MARSHALL COUNTY FISCAL COURT

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

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MARSHALL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

The Marshall 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.



Kevin Neal
County Judge/Executive



Emily Martin
County Treasurer