

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

**For The Year Ended
June 30, 2019**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The 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, 2019, 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
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Kevin Neal, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

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, 2019, 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, 2019, 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 and Other 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 the Schedule of Expenditures of Federal Awards (supplementary information), as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Schedule of Capital Assets (other information) 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 Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Kevin Neal, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Other Matters (Continued)

Supplementary and Other Information (Continued)

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2020, 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 Questioned Costs included herein, which discusses the following report findings:

- 2019-001 The Marshall County Fiscal Court's Schedule Of Expenditures Of Federal Awards Was Materially Misstated
- 2019-002 Material Weaknesses Exist Over The Reporting Of Liabilities And Debt
- 2019-003 The Marshall County Fiscal Court Failed To Have A Written Security Agreement With The Bank
- 2019-004 The Marshall County Fiscal Court Has Deficiencies With Their Purchase Order System And Reporting Of Encumbrances
- 2019-005 The Marshall County Detention Center Has A Lack Of Segregation Of Duties Over Jail Commissary Operations

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

March 18, 2020

MARSHALL COUNTY OFFICIALS**For The Year Ended June 30, 2019****Fiscal Court Members:**

Kevin Neal	County Judge/Executive
Monti Collins	Commissioner
Jeremy Lamb	Commissioner
Kevin Spraggs	Commissioner

Other Elected Officials:

Jason Darnall	County Attorney
Roger Ford	Jailer
Tim York	County Clerk
Tiffany Griffith	Circuit Court Clerk
Eddie McGuire	Sheriff
Tony Henson	Property Valuation Administrator
Michael Gordon	Coroner

Appointed Personnel:

Erica West	County Treasurer
Desiree Hermosillo	Finance Officer
Wendy Greer	Road Department Manager
Chris Freeman	911 Administrator
Laurie Ford	Jail Administrative Assistant
Brad Warning	Deputy Judge/Executive

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 2,725,861	\$	\$
In Lieu Tax Payments	876,097		
Excess Fees	283,546		
Licenses and Permits	79,932		
Intergovernmental	2,236,643	2,069,499	1,836,482
Charges for Services	24,065	2,245	13,000
Miscellaneous	1,575,895	113,663	90,357
Interest	34,797	19,490	6,330
Total Receipts	<u>7,836,836</u>	<u>2,204,897</u>	<u>1,946,169</u>
DISBURSEMENTS			
General Government	8,407,735		
Protection to Persons and Property	537,355		1,662,709
General Health and Sanitation	382,814		
Social Services	219,013		
Recreation and Culture	866,378		
Roads		4,167,252	
Debt Service	34,068		
Capital Projects	52,862		
Administration	745,129	503,510	651,491
Total Disbursements	<u>11,245,354</u>	<u>4,670,762</u>	<u>2,314,200</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,408,518)</u>	<u>(2,465,865)</u>	<u>(368,031)</u>
Other Adjustments to Cash (Uses)			
Change in Payroll Revolving Account	42,781		
Financing Obligation Proceeds			
Transfers From Other Funds	4,035,854	2,300,000	200,000
Transfers To Other Funds	(41,400)		
Total Other Adjustments to Cash (Uses)	<u>4,037,235</u>	<u>2,300,000</u>	<u>200,000</u>
Net Change in Fund Balance	628,717	(165,865)	(168,031)
Fund Balance - Beginning (Restated)	2,386,142	1,055,967	396,181
Fund Balance - Ending	<u>\$ 3,014,859</u>	<u>\$ 890,102</u>	<u>\$ 228,150</u>
Composition of Fund Balance			
Bank Balance	\$ 3,008,749	\$ 965,682	\$ 261,809
Less: Outstanding Checks	(102,677)	(75,580)	(33,659)
Certificates of Deposit			
Payroll Revolving Account	108,787		
Fund Balance - Ending	<u>\$ 3,014,859</u>	<u>\$ 890,102</u>	<u>\$ 228,150</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, 2019
(Continued)

<u>Budgeted Funds</u>				
<u>Federal Grant Fund</u>	<u>Emergency 911 Fund</u>	<u>Occupational Tax Administrator Fund</u>	<u>Alcohol Beverage Control Fund</u>	<u>Building Inspection Fund</u>
\$	\$ 178,014	\$ 5,783,939	\$ 292,460	\$
	213,229		30,825	184,989
250	2,917			1,621
2,171	1,321	96,644	4,859	1,320
<u>2,421</u>	<u>395,481</u>	<u>5,880,583</u>	<u>328,144</u>	<u>187,930</u>
	543,136	59,306	31,492	199,554
			331,228	
1,267,752				
	183,975		10,726	14,521
<u>1,267,752</u>	<u>727,111</u>	<u>59,306</u>	<u>373,446</u>	<u>214,075</u>
<u>(1,265,331)</u>	<u>(331,630)</u>	<u>5,821,277</u>	<u>(45,302)</u>	<u>(26,145)</u>
2,343,826				
	200,960			
(885,854)		(5,850,960)		
<u>1,457,972</u>	<u>200,960</u>	<u>(5,850,960)</u>		
192,641	(130,670)	(29,683)	(45,302)	(26,145)
	160,549	3,162,737	163,448	67,289
<u>\$ 192,641</u>	<u>\$ 29,879</u>	<u>\$ 3,133,054</u>	<u>\$ 118,146</u>	<u>\$ 41,144</u>
\$ 192,641	\$ 31,233	\$ 57,645	\$ 120,808	\$ 48,642
	(1,354)	(85)	(2,662)	(7,498)
		3,075,494		
<u>\$ 192,641</u>	<u>\$ 29,879</u>	<u>\$ 3,133,054</u>	<u>\$ 118,146</u>	<u>\$ 41,144</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, 2019
(Continued)

	Unbudgeted Funds			Total Funds
	Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Jail Commissary Fund	
RECEIPTS				
Taxes	\$	\$	\$	\$ 8,980,274
In Lieu Tax Payments				876,097
Excess Fees				283,546
Licenses and Permits				295,746
Intergovernmental	497,500			6,853,353
Charges for Services				39,310
Miscellaneous			43,130	1,827,833
Interest	47		247	167,226
Total Receipts	<u>497,547</u>		<u>43,377</u>	<u>19,323,385</u>
DISBURSEMENTS				
General Government				8,498,533
Protection to Persons and Property				3,273,982
General Health and Sanitation				382,814
Social Services				219,013
Recreation and Culture			54,863	921,241
Roads				4,167,252
Debt Service	538,900			572,968
Capital Projects				1,320,614
Administration				2,109,352
Total Disbursements	<u>538,900</u>		<u>54,863</u>	<u>21,465,769</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(41,353)</u>		<u>(11,486)</u>	<u>(2,142,384)</u>
Other Adjustments to Cash (Uses)				
Change in Payroll Revolving Account				42,781
Financing Obligation Proceeds				2,343,826
Transfers From Other Funds	41,400			6,778,214
Transfers To Other Funds				(6,778,214)
Total Other Adjustments to Cash (Uses)	<u>41,400</u>			<u>2,386,607</u>
Net Change in Fund Balance	47		(11,486)	244,223
Fund Balance - Beginning (Restated)	1,090	8	211,024	7,604,435
Fund Balance - Ending	<u>\$ 1,137</u>	<u>\$ 8</u>	<u>\$ 199,538</u>	<u>\$ 7,848,658</u>
Composition of Fund Balance				
Bank Balance	\$ 1,137	\$ 8	\$ 200,239	\$ 4,888,593
Less: Outstanding Checks			(701)	(224,216)
Certificates of Deposit				3,075,494
Payroll Revolving Account				108,787
Fund Balance - Ending	<u>\$ 1,137</u>	<u>\$ 8</u>	<u>\$ 199,538</u>	<u>\$ 7,848,658</u>

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

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**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2019

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 entities: The Marshall County Refuse Disposal District and The Marshall County Sanitation 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, they are no longer required components of the reporting entity. Audits of the following entities 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, 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, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (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 governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Federal 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 federal grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

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.

Alcohol Beverage Control Fund - The fund is used to account for receipts and disbursements associated with 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 building inspection licenses. The primary source of receipts for this fund is fees collected for building inspection 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 the debt service requirements of the general obligation bonds of the Public Properties Corporation.

Public Properties Corporation Justice Center Capital Projects 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. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required 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, 2019
(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 listed 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 the Marshall County Fiscal Court.

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

F. Deposits and Investments

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

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

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

G. Long-term Obligations

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

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 not met, as the fiscal court did not have a written agreement with the bank.

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 fiscal court 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. On June 30, 2019, the fiscal court's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$4,719,911

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2019.

	General Fund	Federal Grant Fund	Occupational Tax Administrator Fund	Total Transfers In
General Fund	\$	\$ 885,854	\$ 3,150,000	\$ 4,035,854
Road Fund			2,300,000	2,300,000
Jail Fund			200,000	200,000
Emergency 911 Fund			200,960	200,960
Public Properties Corporation Justice Center Debt Service Fund	41,400			41,400
Total Transfers Out	<u>\$ 41,400</u>	<u>\$ 885,854</u>	<u>\$ 5,850,960</u>	<u>\$ 6,778,214</u>

Reason for transfers:

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

Note 4. Agency Trust Funds

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

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2019, was \$29,443.

Note 5. 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, 2019 was (\$713).

Note 6. Receivable

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 the end of the debt service term. As of June 30, 2019 the arts commission is in compliance with the verbal agreement with the county.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt

A. Direct Borrowings

1. 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 6) 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.

In case of default, the lessor may, without any further demand or notice, take one or any combination of the following remedial steps: (a) by appropriate court action, enforce the pledge set forth in Section 2 of the Ordinance and Section 11 of this lease so that during the remaining lease term there is levied on all the taxable property in the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to pay the lease rental payments when and as due; (b) take legal title to, and sell or re-lease the project or any portion thereof; (c) take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease (including, without limitation, the right to the possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law); and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreements of the lessee under this lease (subject, however, to the limitations thereon contained in this lease) and to recover damages for the breach thereof.

The principal balance of June 30, 2019 was \$269,167. Future principal and interest payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	9,167	8,511
2021	10,000	9,070
2022	10,000	8,840
2023	10,000	8,595
2024	10,000	8,330
2025-2029	50,000	37,275
2030-2034	50,000	29,230
2035-2039	67,500	19,881
2040-2043	52,500	6,075
Totals	<u>\$ 269,167</u>	<u>\$135,807</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt (Continued)

A. Direct Borrowings (Continued)

2. Financing Obligation – Kentucky Infrastructure Authority Loan

On October 1, 2018, Marshall County entered into an assistance agreement with the Kentucky Infrastructure Authority (KIA) for the purpose of the expansion of the Draffenville sewer system. The estimated cost of the project is \$3,066,988. Interest payments commenced in June 2019. Full principal and interest payments will commence within one year of initiation of operation, estimated December 2019. During the fiscal year, the county paid \$14,531 in interest and service fees. The principal balance of June 30, 2019, was \$2,343,826. This project had not been closed out, therefore, future principal and interest payments have not yet been established.

In case of default, the Authority may, without further demand or notice, take one or any combination of the following remedial steps: (a) declare all payments due hereunder during the then current initial term or any renewal term, as set forth in the schedule of payments, to be immediately due and payable; (b) exercise all the rights and remedies of the Authority set forth in the act; (c) take whatever action at law or in equity may appear necessary or desirable to enforce its rights under the assistance agreement; (d) submit a formal referral to the appropriate federal agency, as required by the federal agreement.

B. Other Debt

1. 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% to 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, 2019, was \$1,540,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2020	500,000	37,875
2021	515,000	26,000
2022	<u>525,000</u>	<u>13,125</u>
Totals	<u>\$ 1,540,000</u>	<u>\$ 77,000</u>

The Corporation entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that the 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.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 7. Long-term Debt (Continued)

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings	\$ 279,167	\$ 2,343,826	\$ 10,000	\$ 2,612,993	\$ 9,167
General Obligation Refunding Bonds	2,030,000		490,000	1,540,000	500,000
Total Long-term Debt	<u>\$ 2,309,167</u>	<u>\$ 2,343,826</u>	<u>\$ 500,000</u>	<u>\$ 4,152,993</u>	<u>\$ 509,167</u>

Note 8. 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 2017 was \$1,300,899, FY 2018 was \$1,458,435, and FY 2019 was \$1,674,148.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 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 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 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 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for nonhazardous employees was 21.48 percent.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 8. Employee Retirement System (Continued)

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 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 8 percent of their annual creditable compensation and also contribute 1 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 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 hazardous member's account is credited with a 7.5 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 35.34 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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, 2019
(Continued)

Note 8. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, they 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, they earn fifteen 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 by 1.5 percent. 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 was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 8. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

D. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

E. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

F. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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 proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 9. 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.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 9. Deferred Compensation (Continued)

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

Note 10. Insurance

For the fiscal year ended June 30, 2019, the Marshall County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. 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 has determined that the Marshall County Landfill qualifies under this program for state assistance. However, as a necessary condition for performing this work, the Kentucky Division of Waste Management 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 12. Contingencies

The county is involved in multiple lawsuits. While individually they may not be significant, in the aggregate they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 13. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2019 \$108,787, was added to the general fund cash balance for financial reporting purposes.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2019
(Continued)

Note 14. 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, 2019, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 15. Prior Period Adjustments

Financial statement beginning balances were restated as follow:

	General Fund	Emergency 911 Fund	Occupational Tax Administrator Fund
	<u> </u>	<u> </u>	<u> </u>
Ending Cash Balance Prior Year	\$ 2,386,006	\$ 160,399	\$ 3,166,527
Adjustments:			
Prior Year Voided Checks	136	150	19
Adjustment For Prior Year Interest			(3,809)
Beginning Fund Balance - Restated	<u>\$ 2,386,142</u>	<u>\$ 160,549</u>	<u>\$ 3,162,737</u>

Note 16. Subsequent Event

In May 2019, the county passed an ordinance to authorize the issuance of General Obligation Bonds, Series 2019 for over \$7,000,000 related to the Southwest One Industrial Park. The State and Local Finance Office approved this in December 2019.

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

For The Year Ended June 30, 2019

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MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,427,000	\$ 2,439,434	\$ 2,725,861	\$ 286,427
In Lieu Tax Payments	786,500	786,500	876,097	89,597
Excess Fees	200,000	283,547	283,546	(1)
Licenses and Permits	75,000	75,000	79,932	4,932
Intergovernmental	1,652,850	2,359,960	2,236,643	(123,317)
Charges for Services	30,000	30,000	24,065	(5,935)
Miscellaneous	222,745	713,790	1,575,895	862,105
Interest	5,500	22,597	34,797	12,200
Total Receipts	<u>5,399,595</u>	<u>6,710,828</u>	<u>7,836,836</u>	<u>1,126,008</u>
DISBURSEMENTS				
General Government	7,299,627	9,208,307	8,407,735	800,572
Protection to Persons and Property	512,325	559,055	537,355	21,700
General Health and Sanitation	320,800	405,650	382,814	22,836
Social Services	206,900	225,410	219,013	6,397
Recreation and Culture	957,200	958,700	866,378	92,322
Debt Service	61,745	20,345	34,068	(13,723)
Capital Projects	190,000	228,500	52,862	175,638
Administration	983,945	1,202,368	745,129	457,239
Total Disbursements	<u>10,532,542</u>	<u>12,808,335</u>	<u>11,245,354</u>	<u>1,562,981</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(5,132,947)</u>	<u>(6,097,507)</u>	<u>(3,408,518)</u>	<u>2,688,989</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,932,947	2,932,947	4,035,854	1,102,907
Transfers To Other Funds		(41,400)	(41,400)	
Total Other Adjustments to Cash (Uses)	<u>2,932,947</u>	<u>2,891,547</u>	<u>3,994,454</u>	<u>1,102,907</u>
Net Change in Fund Balance	(2,200,000)	(3,205,960)	585,936	3,791,896
Fund Balance Beginning (Restated)	<u>2,200,000</u>	<u>2,320,106</u>	<u>2,386,142</u>	<u>66,036</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (885,854)</u>	<u>\$ 2,972,078</u>	<u>\$ 3,857,932</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,863,372	\$ 2,435,546	\$ 2,069,499	\$ (366,047)
Charges for Services		1,459	2,245	786
Miscellaneous		36,451	113,663	77,212
Interest	3,000	13,483	19,490	6,007
Total Receipts	<u>1,866,372</u>	<u>2,486,939</u>	<u>2,204,897</u>	<u>(282,042)</u>
DISBURSEMENTS				
Roads	4,061,115	4,624,415	4,167,252	457,163
Administration	603,910	661,177	503,510	157,667
Total Disbursements	<u>4,665,025</u>	<u>5,285,592</u>	<u>4,670,762</u>	<u>614,830</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,798,653)</u>	<u>(2,798,653)</u>	<u>(2,465,865)</u>	<u>332,788</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>1,523,653</u>	<u>1,523,653</u>	<u>2,300,000</u>	<u>776,347</u>
Total Other Adjustments to Cash (Uses)	<u>1,523,653</u>	<u>1,523,653</u>	<u>2,300,000</u>	<u>776,347</u>
Net Change in Fund Balance	(1,275,000)	(1,275,000)	(165,865)	1,109,135
Fund Balance Beginning	<u>1,275,000</u>	<u>1,275,000</u>	<u>1,055,967</u>	<u>(219,033)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 890,102</u>	<u>\$ 890,102</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,619,500	\$ 1,619,500	\$ 1,836,482	\$ 216,982
Charges for Services	13,500	13,500	13,000	(500)
Miscellaneous	76,000	79,517	90,357	10,840
Interest	1,000	1,000	6,330	5,330
Total Receipts	<u>1,710,000</u>	<u>1,713,517</u>	<u>1,946,169</u>	<u>232,652</u>
DISBURSEMENTS				
Protection to Persons and Property	1,722,950	1,743,558	1,662,709	80,849
Administration	781,200	810,290	651,491	158,799
Total Disbursements	<u>2,504,150</u>	<u>2,553,848</u>	<u>2,314,200</u>	<u>239,648</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(794,150)</u>	<u>(840,331)</u>	<u>(368,031)</u>	<u>472,300</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	444,150	444,150	200,000	(244,150)
Total Other Adjustments to Cash (Uses)	<u>444,150</u>	<u>444,150</u>	<u>200,000</u>	<u>(244,150)</u>
Net Change in Fund Balance	(350,000)	(396,181)	(168,031)	228,150
Fund Balance Beginning	<u>350,000</u>	<u>396,181</u>	<u>396,181</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 228,150</u>	<u>\$ 228,150</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$	\$	\$ 250	\$ 250
Interest			2,171	2,171
Total Receipts			<u>2,421</u>	<u>2,421</u>
DISBURSEMENTS				
Capital Projects		2,181,134	1,267,752	913,382
Total Disbursements		<u>2,181,134</u>	<u>1,267,752</u>	<u>913,382</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(2,181,134)</u>	<u>(1,265,331)</u>	<u>915,803</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		3,066,988	2,343,826	(723,162)
Transfers To Other Funds			(885,854)	(885,854)
Total Other Adjustments to Cash (Uses)		<u>3,066,988</u>	<u>1,457,972</u>	<u>(1,609,016)</u>
Net Change in Fund Balance		885,854	192,641	(693,213)
Fund Balance Beginning				
Fund Balance - Ending	\$	<u>0</u>	\$ <u>192,641</u>	\$ <u>(693,213)</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	EMERGENCY 911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 170,000	\$ 170,000	\$ 178,014	\$ 8,014
Intergovernmental	212,000	212,000	213,229	1,229
Miscellaneous		2,907	2,917	10
Interest	750	750	1,321	571
Total Receipts	<u>382,750</u>	<u>385,657</u>	<u>395,481</u>	<u>9,824</u>
DISBURSEMENTS				
Protection to Persons and Property	500,300	554,706	543,136	11,570
Administration	181,700	190,600	183,975	6,625
Total Disbursements	<u>682,000</u>	<u>745,306</u>	<u>727,111</u>	<u>18,195</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(299,250)</u>	<u>(359,649)</u>	<u>(331,630)</u>	<u>28,019</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	199,250	199,250	200,960	1,710
Total Other Adjustments to Cash (Uses)	<u>199,250</u>	<u>199,250</u>	<u>200,960</u>	<u>1,710</u>
Net Change in Fund Balance	(100,000)	(160,399)	(130,670)	29,729
Fund Balance Beginning (Restated)	<u>100,000</u>	<u>160,399</u>	<u>160,549</u>	<u>150</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,879</u>	<u>\$ 29,879</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

OCCUPATIONAL TAX ADMINISTRATOR FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 5,000,000	\$ 5,000,000	\$ 5,783,939	\$ 783,939
Interest	10,000	43,073	96,644	53,571
Total Receipts	<u>5,010,000</u>	<u>5,043,073</u>	<u>5,880,583</u>	<u>837,510</u>
DISBURSEMENTS				
General Government	60,000	93,073	59,306	33,767
Administration	3,000,000	3,000,000		3,000,000
Total Disbursements	<u>3,060,000</u>	<u>3,093,073</u>	<u>59,306</u>	<u>3,033,767</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,950,000</u>	<u>1,950,000</u>	<u>5,821,277</u>	<u>3,871,277</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(5,100,000)</u>	<u>(5,100,000)</u>	<u>(5,850,960)</u>	<u>(750,960)</u>
Total Other Adjustments to Cash (Uses)	<u>(5,100,000)</u>	<u>(5,100,000)</u>	<u>(5,850,960)</u>	<u>(750,960)</u>
Net Change in Fund Balance	(3,150,000)	(3,150,000)	(29,683)	3,120,317
Fund Balance Beginning (Restated)	<u>3,150,000</u>	<u>3,150,000</u>	<u>3,162,737</u>	<u>12,737</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,133,054</u>	<u>\$ 3,133,054</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

ALCOHOL BEVERAGE CONTROL FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 245,010	\$ 245,010	\$ 292,460	\$ 47,450
Licenses and Permits	30,000	30,000	30,825	825
Interest	100	100	4,859	4,759
Total Receipts	<u>275,110</u>	<u>275,110</u>	<u>328,144</u>	<u>53,034</u>
DISBURSEMENTS				
General Government	69,710	69,710	31,492	38,218
Protection to Persons and Property	245,400	338,849	331,228	7,621
Administration	30,000	30,000	10,726	19,274
Total Disbursements	<u>345,110</u>	<u>438,559</u>	<u>373,446</u>	<u>65,113</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(70,000)</u>	<u>(163,449)</u>	<u>(45,302)</u>	<u>118,147</u>
Net Change in Fund Balance	(70,000)	(163,449)	(45,302)	118,147
Fund Balance Beginning	<u>70,000</u>	<u>163,449</u>	<u>163,448</u>	<u>(1)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 118,146</u>	<u>\$ 118,146</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2019
(Continued)

	BUILDING INSPECTION FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 250,000	\$ 250,000	\$ 184,989	\$ (65,011)
Miscellaneous			1,621	1,621
Interest	100	100	1,320	1,220
Total Receipts	<u>250,100</u>	<u>250,100</u>	<u>187,930</u>	<u>(62,170)</u>
DISBURSEMENTS				
Protection to Persons and Property	238,400	238,400	199,554	38,846
Administration	<u>33,100</u>	<u>78,989</u>	<u>14,521</u>	<u>64,468</u>
Total Disbursements	<u>271,500</u>	<u>317,389</u>	<u>214,075</u>	<u>103,314</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(21,400)</u>	<u>(67,289)</u>	<u>(26,145)</u>	<u>41,144</u>
Net Change in Fund Balance	(21,400)	(67,289)	(26,145)	41,144
Fund Balance Beginning	<u>21,400</u>	<u>67,289</u>	<u>67,289</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 41,144</u>	<u>\$ 41,144</u>

MARSHALL COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2019

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 - General Fund	\$ 3,994,454
To adjust for change in Payroll Revolving Accounts	<u>42,781</u>
Total Adjustments to Cash	<u><u>\$ 4,037,235</u></u>

Ending Balance - General Fund	\$ 2,972,078
To adjust for Payroll Revolving Account	<u>42,781</u>
Total Ending Balance - General Fund	<u><u>\$ 3,014,859</u></u>

Note 3. Excess of Disbursements Over Appropriations

General fund debt service exceeded appropriations by \$13,723.

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

For The Year Ended June 30, 2019

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MARSHALL COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2019

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Construction in Progress	\$	\$ 81,825	\$	\$ 81,825
Land and Land Improvements	2,150,185			2,150,185
Buildings and Building Improvements	15,427,719	257,469		15,685,188
Vehicles and Equipment	7,203,286	890,738	219,726	7,874,298
Infrastructure	19,104,663	3,268,160		22,372,823
 Total Capital Assets	 \$ 43,885,853	 \$ 4,498,192	 \$ 219,726	 \$ 48,164,319

MARSHALL COUNTY
NOTES TO OTHER INFORMATION - REGULATORY BASIS
SCHEDULE OF CAPITAL ASSETS

June 30, 2019

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

**MARSHALL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2019

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**MARSHALL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2019

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity's Identifying Number</u>	<u>Provided to Subrecipient</u>	<u>Federal Expenditures</u>
<u>Delta Regional Authority</u>				
<i>Direct Program</i>				
Delta Regional Development	90.200	KY 53872	\$	\$ 299,930
Total Delta Regional Authority				<u>299,930</u>
<u>U. S. Department of Environmental Protection Agency</u>				
<i>Passed-Through Kentucky Infrastructure Authority</i>				
Capitalization Grants For Clean Water State Revolving Funds	66.458	A18-014		964,226
Total U.S. Department of Environmental Protection Agency				<u>964,226</u>
<u>U. S. Department of Homeland Security</u>				
<i>Passed-Through State Department of Homeland Security:</i>				
Homeland Security Grant Program	97.067	18-069		52,000
Emergency Management Performance Grants	97.042			19,986
Total U.S. Department of Homeland Security				<u>71,986</u>
Total Expenditures of Federal Awards			\$ 0	<u>\$ 1,336,142</u>

MARSHALL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2019

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Marshall County, Kentucky under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Marshall County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Marshall County, Kentucky.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

Marshall County has not adopted an indirect cost rate.

Note 4. Kentucky Infrastructure Loan Program

On October 1, 2018 Marshall County entered into an assistance agreement with the Kentucky Infrastructure Authority (KIA) for the purpose of the expansion of the Draffenville sewer system. The estimated cost of the project is \$3,066,988. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The principal balance as of June 30, 2019, was \$2,343,826. This project had not been closed out, therefore, future principal and interest payments have not yet been established.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable 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, 2019, 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 March 18, 2020.

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 Questioned Costs we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002 to be material weaknesses.



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

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2019-004 and 2019-005 to be significant deficiencies.

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 Questioned Costs as items 2019-001 and 2019-003.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

March 18, 2020

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH UNIFORM GUIDANCE**

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited the Marshall County Fiscal Court's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Marshall County Fiscal Court's major federal programs for the year ended June 30, 2019. The Marshall County Fiscal Court's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Marshall County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Marshall County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance
(Continued)

Opinion on Each Major Federal Program

In our opinion, the Marshall County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

Marshall County Fiscal Court's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. Marshall County Fiscal Court's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance
(Continued)

Marshall County Fiscal Court's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. Marshall County Fiscal Courts response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

March 18, 2020

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

For The Year Ended June 30, 2019

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

For The Year Ended June 30, 2019

Section I: Summary of Auditor's Results

Financial Statement

Type of report auditor issued: Adverse on GAAP and Unmodified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any noncompliances material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs - <i>unmodified</i>		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants For Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2019
(Continued)

Section II: Financial Statement Findings

2019-002 Material Weaknesses Exist Over The Reporting Of Liabilities And Debt

Material weaknesses existed over the reporting of liabilities and debt of Marshall County. The June 30, 2019 outstanding debt balances reported on the 4th Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders. In total, \$2,366,493 of outstanding debt was not properly reported on the county's 4th Quarter Financial Report.

This misstatement is largely the result of turnover in the county finance office near the end of the fiscal year and the lack of familiarity with the reporting requirements. However, the 4th Quarter Financial Report was reviewed and approved by the fiscal court, therefore, the misstatement should have been detected. Because the county failed to report \$2,366,493 in outstanding debt, the 4th Quarter Financial Report was materially misstated. Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting.

We recommend the county strengthen internal controls over the reporting of debt service payments and outstanding debt balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding relates to the comment that there were material weaknesses over reporting of liabilities and debt. Outstanding debt balances were reported without the KIA loan because the loan was not yet closed and completed. This misstatement is largely the result of turnover of the entire Treasurer's office in the last month of the 2019 fiscal year. Planned corrective actions include verifying outstanding loan balances and include any future loans that have yet to be closed. Further, collaborative researching efforts between the Treasurer's Office, the County Judge/Executive and Deputy Judge will occur prior to external reporting of outstanding debt.

2019-003 The Marshall County Fiscal Court Failed To Have A Written Security Agreement With The Bank

As of June 30, 2019, \$4,719,911 of the county's funds were not properly secured by pledged securities. While the bank did confirm sufficient securities were pledged to cover deposits, these pledges were not valid as there was no properly executed written agreement between the county and bank in place. In June 2018, Marshall County bid out its banking services. According to bank personnel, the pledge of securities agreement was overlooked when setting up the new accounts. The fiscal court was not in compliance with KRS 41.240, since the requirements of the statute were not met.

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 not met, as the fiscal court did not have a written agreement with the bank. We recommend the county comply with KRS 41.240 by obtaining a properly executed security agreement with the bank.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2019
(Continued)

Section II: Financial Statement Findings (Continued)

2019-003 The Marshall County Fiscal Court Failed To Have A Written Security Agreement With The Bank
 (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding relates to the comment that the Court failed to have a written security agreement with the bank. The bank that holds the county's funds DID, in fact, maintain sufficient securities pledged to cover the deposits of the county. However, the signed documentation of the agreement to do so was overlooked in the process of setting up the new accounts. This matter was already corrected during the audit review process with the signing of a written agreement.

2019-004 The Marshall County Fiscal Court Has Deficiencies With Their Purchase Order System And Reporting Of Encumbrances

The Marshall County Fiscal Court's purchase order system does not work as designed. Throughout the fiscal year, purchase orders were created after invoices were received, as opposed to being obtained before the purchase was made. The county also listed no encumbrances at the year end, despite invoices dated for the 2019 fiscal year being paid in the 2020 fiscal year.

Orders and purchases were made without first obtaining a purchase order from the finance office. Due to the system not working as designed, risk of misappropriation is elevated, and control over expenditures is reduced. Encumbrances are also misstated on the 4th quarter financial statement and are not tracked properly.

A purchase order system that is designed and works effectively creates strong internal controls over expenditures, and will aid in correctly reporting encumbrances. We recommend the fiscal court strengthen internal controls over the purchase order system. Purchase orders should be acquired from the finance office before making any order or purchase. Invoices should then be matched to purchase orders and then claims can be made. Once the fiscal court approves the claims, payment can be made.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding relates to the comment that the Court has deficiencies with their purchase order system and reporting of encumbrances. The current purchase order practice has been followed for many years. However, the Treasurer's office is anticipating a transition to update financial software sometime at the end of April 2020. With the software transition, the purchase order system will be changed to comply with the auditor recommendations.

2019-005 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 audit report as finding 2018-005. 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.

**MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2019
(Continued)**

Section II: Financial Statement Findings (Continued)

2019-005 The Marshall County Detention Center Has A Lack Of Segregation Of Duties Over Jail Commissary Operations (Continued)

A lack of segregation of duties or strong oversight increases the risk that errors or fraud could occur and not be detected. 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.

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:

County Jailer's Response: Due to limited staff and diversity of operations the bookkeeper is required to perform multiple tasks. Some of these duties cannot be separated due to limited staff, there we have implemented strong oversight of the employee or employees responsible for these duties.

Section III: Federal Award Findings And Questioned Costs

2019-001 The Marshall County Fiscal Court's Schedule Of Expenditures Of Federal Awards Was Materially Misstated

Federal Program: CFDA 66.458 Capitalization Grants For Clean Water State Revolving Funds

Award Number and Year: A18-014

Name of Federal Agency and Pass-Through Agency: U.S. Department of Environmental Protection Agency and Kentucky Infrastructure Authority

Compliance Requirements: Reporting

Type of Finding: Material Weakness and Material Non-Compliance

Amount of Questioned Costs: \$0

The fiscal court's internal controls were not adequate to ensure the Schedule of Expenditures Of Federal Awards (SEFA) accurately reported all federal awards expended. The county treasurer has overall responsibility for final preparation of the SEFA. The SEFA for fiscal year 2019 was materially misstated. The treasurer's original SEFA total was \$349,699. The Kentucky Infrastructure Authority (KIA) federal loan in the amount of \$964,226 was omitted from the Marshall County Fiscal Court's SEFA, and the Homeland Security Grant, which was expended on ambulance equipment in April 2019, was understated by \$22,217. Additionally, the fiscal court failed to submit the SEFA to the Department for Local Government and the Auditor of Public Accounts. This is a material weakness in internal controls over the SEFA's preparation and reporting.

This misstatement is largely the result of turnover in the county treasurer's office near the end of the fiscal year, and the lack of familiarity with the reporting requirements. The county treasurer prepared the SEFA based on grant awards received rather than grant funds expended. The fiscal court failed to implement internal controls procedures to ensure the SEFA was accurate and complete. Based on the amount of federal funds omitted from the SEFA, the fiscal court was not aware that they met the requirements of CFR Part 200 of the Uniform Guidance which increases the risk of material noncompliance.

**MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2019
(Continued)**

Section III: Federal Award Findings And Questioned Costs

2019-001 The Marshall County Fiscal Court's SEFA Was Materially Misstated (Continued)

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) states:

§200.502 Basis for determining Federal awards expended.

(a) *Determining Federal awards expended.* The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs.

(b) *Loan and loan guarantees (loans).* Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines must be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section: (1) Value of new loans made or received during the audit period; plus (2) Beginning of the audit period balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus (3) Any interest subsidy, cash, or administrative cost allowance received.

§200.510 Financial Statements

(b) *Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended.

We recommend the fiscal court provide knowledgeable and independent oversight of SEFA preparation and ensure staff responsible for it do an effective job, perform a detailed reconciliation of the federal assistance reported by the treasurer, and establish reporting guidance and assistance to the treasurer to ensure timely, accurate and consistent information and periodically assess the effectiveness of the treasurer's records to ensure accurate reporting.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding relates to the comment that the Schedule of Expenditures of Federal Awards (SEFA) was materially misstated. The SEFA form requests a reporting of all federal awards expended. The county expended funds from a KIA loan program that ultimately resulted in this finding. The Treasurer's office was unaware that this loan would be required to be reported as an "award;" further, the Treasurer's office was unaware that this loan was funded through federal dollars. This misstatement is largely the result of turnover of the entire Treasurer's office in the last month of the 2019 fiscal year.

Planned corrective actions include verifying outstanding loan balances and sources at fiscal year-end prior to completing the SEFA. Further, collaborative researching efforts between the Treasurer's Office, the County Judge/Executive, Deputy Judge and any department director responsible for grants will occur prior to external reporting of federal funding.

Section IV: Review of Prior Year Findings and Questioned Costs

None.

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

MARSHALL COUNTY FISCAL COURT

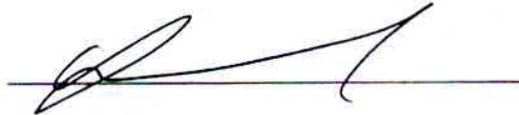
For The Year Ended June 30, 2019

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MARSHALL COUNTY FISCAL COURT

For The Year Ended June 30, 2019

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



County Judge/Executive



County Treasurer