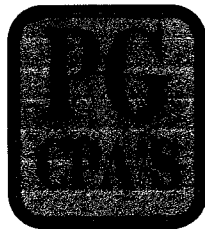


**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2016**



Peercy and Gray, PSC
Certified Public Accountants
2300 Hursbourne Village Drive, Suite 500
Louisville, Kentucky 40299
Phone: (502) 493-1090
FAX: (502) 493-7231

EXECUTIVE SUMMARY
AUDIT OF THE
MARSHALL COUNTY FISCAL COURT

June 30, 2016

Peercy and Gray, PSC has completed the audit of the Marshall County Fiscal Court for fiscal year ended June 30, 2016.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Marshall County Fiscal Court.

Financial Condition:

The Marshall County Fiscal Court had total receipts of \$16,872,057 and disbursements of \$15,552,125 in fiscal year 2016. This resulted in a total ending fund balance of \$5,444,783, which is an increase of \$1,220,835 from the prior year.

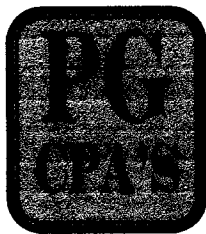
Findings:

- 2016-001 Fiscal Court Failed To Report All Receipts And Disbursements Associated With All County Activity
- 2016-002 Decentralized Receipts Were Not Properly Turned Over To The County Treasurer
- 2016-003 Marshall County Fiscal Court Has Internal Control Weaknesses And Non-compliances In Payroll Processing
- 2016-004 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets
- 2016-005 The Marshall County Detention Center Has A Lack Of Segregation Of Duties Over Jail Commissary Operations

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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PEERCY AND GRAY, PSC

Certified Public Accountants

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To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Chyrrill Miller, Former Marshall County Judge/Executive

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, 2016, 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.

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Chyrill Miller, Former County Judge/Executive
Honorable Kevin Neal, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Auditor's Responsibility (Continued)

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

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, 2016, 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, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
 Honorable Chyrrill Miller, Former Marshall County Judge/Executive
 Honorable Kevin Neal, Marshall County Judge/Executive
 Members of the Marshall County Fiscal Court

Other Matters (Continued)

Supplementary Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2017 on our consideration of the Marshall County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marshall County Fiscal Court's internal control over financial reporting and compliance.

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

- 2016-001 Fiscal Court Failed To Report All Receipts And Disbursements Associated With All County Activity
- 2016-002 Decentralized Receipts Were Not Properly Turned Over To The County Treasurer
- 2016-003 Marshall County Fiscal Court Has Internal Control Weaknesses And Non-compliances In Payroll Processing
- 2016-004 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets
- 2016-005 The Marshall County Detention Center Has A Lack Of Segregation Of Duties Over Jail Commissary Operations

Respectfully submitted,



Percy and Gray, PSC
 Certified Public Accountants

May 30, 2017

MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Chyrill Miller (Ending November 4, 2015)	County Judge/Executive
Kevin Neal (Beginning November 5, 2015-Current)	County Judge/Executive
Bob Gold	Commissioner
Johnny Bowlin	Commissioner
Dr. Rick Cocke	Commissioner

Other Elected Officials:

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

Appointed Personnel:

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

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

For The Year Ended June 30, 2016

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

For The Year Ended June 30, 2016

	Budgeted Funds				
	General Fund	Road Fund	Jail Fund	Federal Grant Fund	Emergency 911 Fund
RECEIPTS					
Taxes	\$ 2,595,367	\$	\$	\$	\$ 178,901
In Lieu Tax Payments	841,763				
Excess Fees	427,786				
Licenses and Permits	106,026				
Intergovernmental	859,634	2,558,436	1,631,849	24,652	150,064
Charges for Services	53,747	6,524	17,625		
Miscellaneous	794,966	23,224	52,583		
Interest	8,275	3,997	1,391		474
Total Receipts	5,687,564	2,592,181	1,703,448	24,652	329,439
DISBURSEMENTS					
General Government	3,511,366				
Protection to Persons and Property	540,280		1,544,917		441,450
General Health and Sanitation	221,526			40,859	
Social Services	105,053				
Recreation and Culture	731,152				
Roads		3,281,255			
Other Transportation Facilities and Services					
Debt Service	29,589	13,996			
Capital Projects	105,830				
Administration	2,970,662	497,901	592,594		141,576
Total Disbursements	8,215,458	3,793,152	2,137,511	40,859	583,026
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,527,894)	(1,200,971)	(434,063)	(16,207)	(253,587)
Other Adjustments to Cash (Uses)					
Change in Payroll Revolving Account	(99,097)				
Transfers From Other Funds	2,939,176	1,850,000	575,000	9,954	226,000
Transfers To Other Funds	(78,150)				
Total Other Adjustments to Cash (Uses)	2,761,929	1,850,000	575,000	9,954	226,000
Net Change in Fund Balance	234,035	649,029	140,937	(6,253)	(27,587)
Fund Balance - Beginning	599,004	158,831	126,212	7,414	59,116
Fund Balance - Ending	\$ 833,039	\$ 807,860	\$ 267,149	\$ 1,161	\$ 31,529
Composition of Fund Balance					
Bank Balance	\$ 861,128	\$ 831,507	\$ 286,687	\$ 1,161	\$ 36,313
Payroll Revolving Reconciled Balance	165,075				
Less: Outstanding Checks	(193,164)	(23,647)	(19,538)		(4,784)
Fund Balance - Ending	\$ 833,039	\$ 807,860	\$ 267,149	\$ 1,161	\$ 31,529

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, 2016
(Continued)

Budgeted Funds			
Occupational Tax Administrator Fund	Veterans' Van Fund	Alcohol Beverage Control Fund	Building Inspection Fund
\$ 5,756,367	\$	\$ 57,985	\$
		22,450	115,167
		1,500	
	3,500		
22,691	18	16	22
5,779,058	3,518	81,951	115,189
103,338		5,422	95,258
	1,989		
103,338	1,989	5,422	2,957
			98,215
5,675,720	1,529	76,529	16,974
	500		
(5,536,454)		(64,176)	
(5,536,454)	500	(64,176)	
139,266	2,029	12,353	16,974
2,779,117	1,379		
\$ 2,918,383	\$ 3,408	\$ 12,353	\$ 16,974
\$ 2,934,050	\$ 3,408	\$ 12,485	\$ 20,952
(15,667)		(132)	(3,978)
\$ 2,918,383	\$ 3,408	\$ 12,353	\$ 16,974

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, 2016
(Continued)

Unbudgeted Funds			
Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Jail Commissary Fund	Total Fund
\$	\$	\$	\$ 8,588,620
			841,763
			427,786
			243,643
497,500			5,722,135
			79,396
		54,942	929,215
2	2,356	257	39,499
497,502	2,356	55,199	16,872,057
			3,620,126
			2,621,905
			262,385
			105,053
		36,055	767,207
			3,281,255
			1,989
537,100			580,685
			105,830
			4,205,690
537,100		36,055	15,552,125
(39,598)	2,356	19,144	1,319,932
			(99,097)
78,150			5,678,780
			(5,678,780)
78,150			(99,097)
38,552	2,356	19,144	1,220,835
2,909	285,846	204,120	4,223,948
\$ 41,461	\$ 288,202	\$ 223,264	\$ 5,444,783
\$ 41,461	\$ 288,202	\$ 224,708	\$ 5,542,062
			165,075
		(1,444)	(262,354)
\$ 41,461	\$ 288,202	\$ 223,264	\$ 5,444,783

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

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TO THE FINANCIAL STATEMENT**

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MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

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 the emergency dispatch services. The primary sources of receipts for this fund are 911 service fees as well as other fees received from the state.

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

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

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

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

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

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

Public Properties Corporation Justice Center Capital Projects Fund - The purpose of this fund is to account for the construction activities of the Public Properties Corporation.

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

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of this fund.

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

E. Marshall County Elected Officials

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

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

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

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

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

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

	General Fund	Alcohol Beverage Fund	Occupational Tax Administrator Fund	Total Transfers In
General Fund	\$	\$ 64,176	\$ 2,875,000	\$ 2,939,176
Road Fund			1,850,000	1,850,000
Jail Fund			575,000	575,000
Federal Grants Fund			9,954	9,954
Emergency 911 Fund			226,000	226,000
Veterans Van Fund			500	500
Public Properties Corporation Justice Center Debt Service Fund	78,150			78,150
Total Transfers Out	\$ 78,150	\$ 64,176	\$ 5,536,454	\$ 5,678,780

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. 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, 2016 was \$16,419.

Note 5. Receivables

On November 30, 2012, Marshall County entered into an agreement with Kentucky Association of Counties Financing Corporation for the purpose of the construction of the arts commission building. The principal amount was \$320,000 at an effective interest rate of 3.656% for thirty years. A verbal agreement between the Marshall County Arts Commission and Marshall County Fiscal Court exists stating that debt is paid by the county and the arts Commission in turn reimburses the county yearly. Ownership will go to the Marshall County Arts Commission at end of debt service term. As of June 30, 2016, the arts commission is in compliance with the verbal agreement with the county.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 6. Long-term Debt

A. General Obligation Refunding Bonds, Series 2012

On April 3, 2012, the Marshall County Public Properties Corporation (Corporation) issued General Obligation Refunding Bonds, Series 2012, in the amount of \$4,815,000 for the purpose of paying the cost of constructing a new county justice center facility and the cost of the issuance of the bonds. Principal payments are due March 1, beginning in 2013, and interest, which is variable at 1%-2.5%, is payable semiannually on March 1 and September 1, beginning September 1, 2012. The maturity date of the issue is March 1, 2022. The outstanding balance as of June 30, 2016 was \$2,980,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 470,000	\$ 67,900
2018	480,000	58,500
2019	490,000	48,900
2020	500,000	37,875
2021	515,000	26,000
2022	<u>525,000</u>	<u>13,125</u>
Totals	<u>\$ 2,980,000</u>	<u>\$ 252,300</u>

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

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

B. Financing Obligation – Blacktop Patcher

On October 5, 2012, Marshall County entered into an agreement with KACoLT for the purchase of a blacktop patcher for \$64,200. The terms of this agreement consist of sixty principal and interest payments due monthly at an interest rate of 3.604%. The principal balance as of June 30, 2016, was \$16,936. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 12,362	\$ 374
2018	<u>4,574</u>	<u>35</u>
Totals	<u>\$ 16,936</u>	<u>\$ 409</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 6. Long-term Debt (Continued)

C. Financing Obligation – Arts Commission Building

On November 30, 2012, Marshall County entered into an agreement with the Kentucky Association of Counties Finance Corporation for the purpose of the construction of the arts commission building. The terms of this agreement consist of monthly principal and interest payments for a term of thirty years at an interest rate of 3.656%. A verbal agreement exists between the Marshall County Arts Commission and Marshall County Fiscal Court (see Note 5) agreeing that the county is reimbursed yearly for the debt payments made and at maturity date the building will belong to the Marshall County Arts Commission. The principal balance as of June 30, 2016 was \$299,167. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 9,167	\$ 9,130
2018	10,000	9,745
2019	10,000	9,520
2020	10,000	9,295
2021	10,000	9,070
2022-2026	50,000	41,587
2027-2031	50,000	34,138
2032-2036	52,500	25,870
2037-2041	75,000	14,831
2042-2043	22,500	1,800
Totals	\$ 299,167	\$ 164,986

D. Financing Obligation – Water Towers

The Marshall County Fiscal Court entered into an Assistance Agreement with the Kentucky Infrastructure Authority in the amount of \$1,075,000 for the construction of two 150,000 gallon elevated water storage tanks. The project was financed with a loan of \$275,000 and a grant of \$800,000 for a total cost not to exceed \$1,075,000. Upon completion of the project, the fiscal court entered into a loan with the Authority for repayment of the \$275,000 on June 1, 2016. Principal and interest payments were to be due June 1 and December 1, beginning December 1, 2016. Interest is payable at a rate of 3.0%. The maturity date of the issue is June 1, 2036. The outstanding balance as of June 30, 2016 was \$275,000 and was paid off in march 2017 . Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 275,000	\$ 6,388
Totals	\$ 275,000	\$ 6,388

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 6. Long-term Debt (Continued)

E. Changes In Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Refunding Bonds	\$ 3,440,000	\$	\$ 460,000	\$ 2,980,000	\$ 470,000
Financing Obligations	<u>337,149</u>	<u>275,000</u>	<u>21,046</u>	<u>591,103</u>	<u>296,529</u>
Total Long-term Debt	<u>\$ 3,777,149</u>	<u>\$ 275,000</u>	<u>\$ 481,046</u>	<u>\$ 3,571,103</u>	<u>\$ 766,529</u>

Note 7. Employee Retirement System

Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous and hazardous duty positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.95 percent.

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

The county's contribution for FY 2014 was \$1,548,929, FY 2015 was \$1,496,774 and FY 2016 was \$1,451,162.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 7. Employee Retirement System (Continued)

Plan Description (Continued)

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.

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

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

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

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

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

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

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

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 8. Deferred Compensation

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

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

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

Note 9. Insurance

For the fiscal year ended June 30, 2016, Marshall County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Landfill Closure and Post-Closure Costs

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

Note 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2016, was added to the general fund cash balance for financing reporting purposes.

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

GENERAL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 2,344,500	\$ 2,348,300	\$ 2,595,367	\$ 247,067
In Lieu Tax Payments	813,500	813,500	841,763	28,263
Excess Fees	175,000	427,750	427,786	36
Licenses and Permits	165,000	103,285	106,026	2,741
Intergovernmental	352,900	740,191	859,634	119,443
Charges for Services	50,000	52,867	53,747	880
Miscellaneous	216,500	770,049	794,966	24,917
Interest	2,500	2,500	8,275	5,775
Total Receipts	4,119,900	5,258,442	5,687,564	429,122
DISBURSEMENTS				
General Government	3,019,095	3,884,014	3,511,366	372,648
Protection to Persons and Property	608,175	586,340	540,280	46,060
General Health and Sanitation	171,750	257,400	221,526	35,874
Social Services	128,130	120,630	105,053	15,577
Recreation and Culture	737,400	743,150	731,152	11,998
Debt Service	82,630	121,280	107,739	13,541
Capital Projects	80,000	176,675	105,830	70,845
Administration	3,391,650	3,520,673	2,970,662	550,011
Total Disbursements	8,218,830	9,410,162	8,293,608	1,116,554
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(4,098,930)	(4,151,720)	(2,606,044)	1,545,676
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	3,798,930	3,798,930	2,939,176	(859,754)
Transfers To Other Funds		(28,285)		28,285
Total Other Adjustments to Cash (Uses)	3,798,930	3,770,645	2,939,176	(831,469)
Net Change in Fund Balance	(300,000)	(381,075)	333,132	714,207
Fund Balance Beginning	300,000	334,832	334,832	
Fund Balance - Ending	\$ 0	\$ (46,243)	\$ 667,964	\$ 714,207

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,558,518	\$ 3,462,781	\$ 2,558,436	\$ (904,345)
Charges For Services	200	200	6,524	6,324
Miscellaneous	1,500	17,902	23,224	5,322
Interest	3,000	3,000	3,997	997
Total Receipts	1,563,218	3,483,883	2,592,181	(891,702)
DISBURSEMENTS				
Roads	3,610,471	5,041,832	3,281,255	1,760,577
Debt Service			13,996	(13,996)
Administration	554,900	1,053,035	497,901	555,134
Total Disbursements	4,165,371	6,094,867	3,793,152	2,301,715
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,602,153)	(2,610,984)	(1,200,971)	1,410,013
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,452,153	2,452,153	1,850,000	(602,153)
Total Other Adjustments to Cash (Uses)	2,452,153	2,452,153	1,850,000	(602,153)
Net Change in Fund Balance	(150,000)	(158,831)	649,029	807,860
Fund Balance Beginning	150,000	158,831	158,831	
Fund Balance - Ending	\$ 0	\$ 0	\$ 807,860	\$ 807,860

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,413,000	\$ 1,441,000	\$ 1,631,849	\$ 190,849
Charges for Services	13,500	13,500	17,625	4,125
Miscellaneous	61,000	61,000	52,583	(8,417)
Interest	1,000	1,000	1,391	391
Total Receipts	1,488,500	1,516,500	1,703,448	186,948
DISBURSEMENTS				
Protection to Persons and Property	1,588,300	1,599,300	1,544,917	54,383
Administration	645,200	663,412	592,594	70,818
Total Disbursements	2,233,500	2,262,712	2,137,511	125,201
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(745,000)	(746,212)	(434,063)	312,149
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	620,000	620,000	575,000	(45,000)
Total Other Adjustments to Cash (Uses)	620,000	620,000	575,000	(45,000)
Net Change in Fund Balance	(125,000)	(126,212)	140,937	267,149
Fund Balance Beginning (Restated)	125,000	126,212	126,212	
Fund Balance - Ending	\$ 0	\$ 0	\$ 267,149	\$ 267,149

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)
	Original	Final	Variance with Final Budget Positive (Negative)
RECEIPTS			
Intergovernmental	\$	\$ 24,652	\$ 24,652
Total Receipts		24,652	24,652
DISBURSEMENTS			
General Health and Sanitation		40,902	40,859
Capital Projects		7,414	7,414
Total Disbursements		48,316	40,859
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(23,664)	(16,207)
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			9,954
Total Other Adjustments to Cash (Uses)			9,954
Net Change in Fund Balance		(23,664)	(6,253)
Fund Balance Beginning		7,414	7,414
Fund Balance - Ending	\$ 0	\$ (16,250)	\$ 1,161

17,411

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

E911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 190,000	\$ 190,000	\$ 178,901	\$ (11,099)
Intergovernmental	150,000	150,000	150,064	64
Interest	750	750	474	(276)
Total Receipts	340,750	340,750	329,439	(11,311)
DISBURSEMENTS				
Protection to Persons and Property	435,950	444,250	441,450	2,800
Administration	155,800	147,500	141,576	5,924
Total Disbursements	591,750	591,750	583,026	8,724
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(251,000)	(251,000)	(253,587)	(2,587)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	176,000	176,000	226,000	50,000
Total Other Adjustments to Cash (Uses)	176,000	176,000	226,000	50,000
Net Change in Fund Balance	(75,000)	(75,000)	(27,587)	47,413
Fund Balance Beginning	75,000	75,000	59,116	(15,884)
Fund Balance - Ending	\$ 0	\$ 0	\$ 31,529	\$ 31,529

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

OCCUPATIONAL TAX ADMINISTRATOR FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 4,500,000	\$ 4,500,000	\$ 5,756,367	\$ 1,256,367
Interest	7,500	11,000	22,691	11,691
Total Receipts	4,507,500	4,511,000	5,779,058	1,268,058
DISBURSEMENTS				
General Government	95,000	103,350	103,338	12
Administration	114,917	139,184		139,184
Total Disbursements	209,917	242,534	103,338	139,196
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	4,297,583	4,268,466	5,675,720	1,407,254
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(7,047,583)	(7,047,583)	(5,536,454)	1,511,129
Total Other Adjustments to Cash (Uses)	(7,047,583)	(7,047,583)	(5,536,454)	1,511,129
Net Change in Fund Balance	(2,750,000)	(2,779,117)	139,266	2,918,383
Fund Balance Beginning	2,750,000	2,779,117	2,779,117	
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,918,383	\$ 2,918,383

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

VETERAN'S VAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 3,000	\$ 3,000	\$ 3,500	\$ 500
Interest	10	10	18	8
Total Receipts	3,010	3,010	3,518	508
DISBURSEMENTS				
Other Transportation Facilities and Services	3,910	3,910	1,989	1,921
Administration		979		979
Total Disbursements	3,910	4,889	1,989	2,900
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(900)	(1,879)	1,529	3,408
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	500	500	500	
Total Other Adjustments to Cash (Uses)	500	500	500	
Net Change in Fund Balance	(400)	(1,379)	2,029	3,408
Fund Balance Beginning	400	1,379	1,379	
Fund Balance - Ending	\$ 0	\$ 0	\$ 3,408	\$ 3,408

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

ALCOHOL BEVERAGE CONTROL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$	\$ 200,000	\$ 57,985	\$ (142,015)
Licenses and Permits		24,000	22,450	(1,550)
Charges for Services			1,500	1,500
Interest		50	16	(34)
Total Receipts		224,050	81,951	(142,099)
DISBURSEMENTS				
General Government		130,565	5,422	125,143
Administration		25,810		25,810
Total Disbursements		156,375	5,422	150,953
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		67,675	76,529	8,854
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(64,176)	(64,176)
Total Other Adjustments to Cash (Uses)			(64,176)	(64,176)
Net Change in Fund Balance		67,675	12,353	(55,322)
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ 67,675	\$ 12,353	\$ (55,322)

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

BUILDING INSPECTION FUND			
Budgeted Amounts		Actual	Variance with
Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS			
Licenses and Permits	115,215	115,167	(48)
Interest	10	22	12
Total Receipts	115,225	115,189	(36)
DISBURSEMENTS			
Protection to Persons and Property	140,260	95,258	45,002
Administration	3,250	2,957	293
Total Disbursements	143,510	98,215	45,295
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(28,285)	16,974	45,259
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	28,285		(28,285)
Total Other Adjustments to Cash (Uses)	28,285		(28,285)
Net Change in Fund Balance		16,974	16,974
Fund Balance Beginning			
Fund Balance - Ending	\$ 0	\$ 16,974	\$ 16,974

MARSHALL COUNTY
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON SCHEDULES

June 30, 2016

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

Total Disbursements - Budgetary Basis	\$ 8,293,608
Transfer for Judicial Center Bonds	<u>(78,150)</u>
Total Disbursements - Regulatory Basis	<u>\$ 8,215,458</u>
Other Adjustments to Cash (Uses) - Budgetary Basis	\$ 2,939,176
Change in Payroll Revolving Account balance	(99,097)
Transfer for Judicial Center Bonds	<u>(78,150)</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ 2,761,929</u>
Fund Balance Beginning - Budgetary Basis	\$ 334,832
Payroll Revolving Account - Prior year balance	<u>264,172</u>
Total Beginning Fund Balance - Regulatory Basis	<u>\$ 599,004</u>
Fund Balance Ending - Budgetary Basis	\$ 667,964
Payroll Revolving Account - Prior year balance	264,172
Change in Payroll Revolving Account balance	<u>(99,097)</u>
Total Fund Balance Ending (Restated) - Regulatory Basis	<u>\$ 833,039</u>

MARSHALL COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

MARSHALL COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following schedule of capital assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and Land Improvements	\$ 2,174,113	\$ 3,000	\$	\$ 2,177,113
Buildings and Building Improvements	15,776,409	26,000		15,802,409
Vehicles and Equipment	7,270,089	418,954	115,000	7,574,043
Infrastructure	<u>14,434,210</u>	<u>1,102,185</u>		<u>15,536,395</u>
 Total Capital Assets	 <u><u>\$ 39,654,821</u></u>	 <u><u>\$ 1,550,139</u></u>	 <u><u>\$ 115,000</u></u>	 <u><u>\$ 41,089,960</u></u>

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

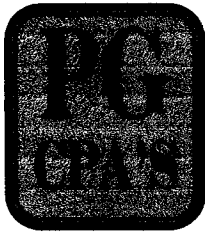
June 30, 2016

Note 1. Capital Assets

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

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

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



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Marshall County Fiscal Court for the fiscal year ended June 30, 2016, 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 May 30, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 Responses as items 2016-003 and 2016-004 to be material weaknesses.

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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2016-005 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Marshall County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002 and 2016-003.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Peercy and Gray, PSC
Certified Public Accountants

May 30, 2017

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

STATE LAWS AND REGULATIONS

2016-001 Fiscal Court Failed To Report All Receipts And Disbursements Associated With All County Activity

This is a repeat finding and was included in the prior year report as finding 2015-003. During fiscal year 2016, Marshall County had several bank accounts that were excluded from the county's 4th Quarter Financial Report and budget process. These accounts include activities associated with E-911, the Marshall County Animal Shelter and the Geographical Information Systems. Due to the nature of these accounts and sources of funding, the county elected not to include the corresponding receipts and disbursements in the county's budget process or on the Quarterly Financial Reports. As a result, the county's Quarterly Financial Reports were misstated.

Disbursements were made without Fiscal Court approval. Debit cards were used for some disbursements, and the receipts for some of these purchases could not be located. Dual signatures were not required on the checks, and they were not signed by the Judge and Treasurer as they are with other county bank accounts. The Treasurer did not reconcile the bank statements for these accounts as she did not receive them.

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

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

Views of Responsible Official and Planned Corrective Action: 911, GIS and Emergency Management Accounts have all been closed and should not affect any financial or budgeting reporting in the future. Currently, the Marshall County Animal Shelter Donation Fund Account operates with greater oversight and reports to the Fiscal Court. However, we are currently discussing ways to eliminate the court's responsibility for the account.

**MARSHALL COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016
(Continued)**

STATE LAWS AND REGULATIONS (Continued)

2016-002 Decentralized Receipts Were Not Properly Turned Over To The County Treasurer

This is a repeat finding and was included in the prior year report as finding 2015-007. The following findings were noted with the County's decentralized receipts:

- Fees collected at the Marshall County Detention Center were turned over to the County Treasurer once a week
- Fees collected at the Marshall County Animal Shelter were turned over to the County Treasurer once a week.

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

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

Views of Responsible Official and Planned Corrective Action: We will implement changes to improve timely processing of receipts to comply with KRS 68.210

**MARSHALL COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016
(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES

2016-003 Marshall County Fiscal Court Has Internal Control Weaknesses And Non-compliances In Payroll Processing

This is a repeat finding and was included in the prior year report as finding 2015-006. The following findings were noted with Marshall County payroll:

The actual salary schedule approved in Fiscal Court on 7/21/15 did not have page 4 attached to it in the minutes. When auditors inquired about this, they were provided the missing page. However, auditors noticed that this schedule did not always agree with the amounts paid to employees. When auditors inquired about this discrepancy, they were given a more detailed third list that they said was used to create the summary list that was recorded in the minutes of the fiscal court meeting. During our test of payroll, we selected 21 employees from various departments. There were 3 employees whose pay rate did not equal the actual salary schedule approved by Fiscal Court, one each from the Road, Jail and Senior Center departments.

There was one employee in the 911 department that was given two raises during the fiscal year, without evidence of fiscal court approval. This rate increase was documented in her personnel file.

One employee's timesheet did not calculate to the total hours paid, but was corrected on the next paycheck

One employee's timesheet included 55 hours of overtime, in which some overtime was earned the prior pay period before but not included until the next paycheck because of timing issues.

Adequate time is not allowed for accurate payroll preparation. Payroll is issued on the 15th and 30th of the month. The payroll clerk receives the timesheets approximately 4 days before the checks are issued, however the bank requires the information for the direct deposit of checks two days prior to that. This causes hours to be estimated, and then corrected on the next paycheck if the hours are not worked or overtime is required.

Some department heads record and track sick and vacation time instead of the Finance Officer who prepares the payroll. There is no reconciliation by the Finance Officer. Upon further review, we found there have been some concerns that these calculations are not accurate.

KRS 64.530 requires "Fiscal Court of each county shall fix the reasonable compensation of every county officer and employee..." We recommend that Marshall County should comply with KRS 64.530 and present a complete and accurate Salary Schedule to Fiscal Court for their approval before the fiscal year begins. Also all new hires or current employees that are given raises should have their wage rates approved by Fiscal Court.

We also recommend that more time be allowed for payroll preparation to allow for more accurate payroll.

Views of Responsible Official and Planned Corrective Action: We have purchased software to strengthen these controls and eliminate non-compliance with timekeeping issues. The only place where this has been specifically identified is in the offices of two elected officials. The fiscal court will take action to require reconciliation for the finance officer. Marshall County is in compliance with KRS 64.530 in that a complete and accurate salary schedule of employees that are the responsibility of the fiscal court is presented to the fiscal court for their approval at the beginning of the fiscal year. We have discovered a difference of opinion in the application of KRS 64.530. It is our opinion that the Marshall County Fiscal Court sets the reasonable maximum amount in accordance with KRS 64.530. Elected officials' budgets are fixed by the Fiscal Court to set the reasonable maximum amount of employees.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2016
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2016-004 Weak Internal Controls Over Capital Assets Resulted In The Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets

This is a repeat finding and was included in the prior year report as finding 2015-002. Material weaknesses exist over the reporting of the capital assets of Marshall County. Procedures are not followed to monitor the purchase of capital assets from the purchase, to inclusion on the county's schedule of capital assets and finally, to the inclusion on the county's insurance policy, if necessary. The county's schedule of capital assets for the audit period failed to recognize all asset purchases that occurred throughout the year. Also, many entries on the schedule of capital assets did not include serial/identification numbers that would make tracing items difficult. Finally, no annual inventory of capital assets was performed.

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

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

Views of Responsible Official and Planned Corrective Action: We recognize this finding as a valid weakness in our internal controls and will take your recommendations into consideration to strengthen our capital asset schedule. We had previously identified this and are currently developing an asset management plan.

**MARHALL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2016
(Continued)**

INTERNAL CONTROL-SIGNIFICANT DEFICIENCY

2016-005 The Marshall County Detention Center Has A Lack Of Segregation Of Duties Over Jail Commissary Operations

This is a repeat finding and was included in the prior year report as finding 2015-005. The Marshall County Detention Center lacks adequate segregation of duties over the jail commissary operations. Due to a limited number of staff and the diversity of operations, the bookkeeper is required to perform multiple tasks such as posting to the receipts and disbursements ledgers, preparing bank deposits, preparing bank reconciliations, and preparing financial reports.

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

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

Views of Responsible Official and Planned Corrective Action: Due to limited staff the Jailer, and the two administrative assistants will look over and initial receipts, deposits, bank records or any other accounting function.

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

MARSHALL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2016**



Appendix A

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MARSHALL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

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


Kevin Neal
County Judge/Executive
Emily Martin
County Treasurer