

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

**For The Fiscal Year Ended
June 30, 2013**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MARSHALL COUNTY FISCAL COURT

June 30, 2013

The Auditor of Public Accounts has completed the audit of the Marshall County Fiscal Court for fiscal year ended June 30, 2013.

We have issued an unqualified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents - Regulatory Basis of Marshall County, Kentucky.

Financial Condition:

The Marshall County Fiscal Court had total receipts of \$15,313,558 and disbursements of \$14,159,693 in fiscal year 2013. This resulted in ending cash and cash equivalents balance of \$3,717,380, which was an increase of \$1,153,865 from the prior year.

Report Comments:

- 2013-01 The Marshall County Fiscal Court Lacks Adequate Segregation Of Duties Over Revenues And Receipts
- 2013-02 The Marshall County Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping

Deposits:

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

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Mike Miller, 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 Cash Balances and Cash Equivalents - Regulatory Basis of Marshall County, Kentucky, for the year ended June 30, 2013, and the related notes to the financial statement.

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. 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.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1, the financial statement is prepared by Marshall County, Kentucky 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 Marshall County, Kentucky as of June 30, 2013, 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 cash and cash equivalents of Marshall County, Kentucky as of June 30, 2013, and its cash receipts and disbursements, for the year then ended, in accordance with the financial reporting provisions prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matters

As discussed in Note 12 to the financial statement, in fiscal year 2013, the Marshall County Fiscal Court adopted new accounting guidance on a regulatory basis. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statement, the Marshall County Fiscal Court would have been included some component entities under accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board. However, under the regulatory basis they are no longer are required components of the reporting entity. Our opinion is not modified with respect to this matter.

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Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Marshall County, Kentucky. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules have 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 are fairly stated in all material respects in relation to the basic financial statement. The capital asset schedule 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 December 13, 2013 on our consideration of Marshall County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 and should be considered in assessing the results of our audit.

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

- 2013-01 The Marshall County Fiscal Court Lacks Adequate Segregation Of Duties Over Revenues And Receipts
- 2013-02 The Marshall County Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

December 13, 2013

MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2013

Fiscal Court Members:

Mike Miller	County Judge/Executive
Terry Anderson	Magistrate
Misti Drew	Magistrate
Bob Gold	Magistrate

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
Russell York	Road Supervisor
Jason Luebker	911 Administrator

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

For The Year Ended June 30, 2013

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

For The Year Ended June 30, 2013

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Federal Grant Fund
RECEIPTS				
Taxes	\$2,456,100	\$	\$	\$
In Lieu Tax Payments	1,178,116			
Excess Fees	440,922			
Licenses and Permits	109,376			
Intergovernmental	494,383	2,290,992	1,524,945	84,884
Charges for Services		120,770	22,645	
Miscellaneous	514,678	19,004	18,308	
Interest	7,900	6,072	1,584	
Total Receipts	<u>5,201,475</u>	<u>2,436,838</u>	<u>1,567,482</u>	<u>84,884</u>
DISBURSEMENTS				
General Government	2,691,878			
Protection to Persons and Property	603,163		1,386,177	
General Health and Sanitation	130,591			84,884
Social Services	124,554			
Recreation and Culture	659,166			
Roads		3,093,553		
Other Transportation Facilities and Services				
Debt Service	16,433	10,753		
Capital Projects	125,278			
Administration	2,831,331	478,863	576,727	
Total Disbursements	<u>7,182,394</u>	<u>3,583,169</u>	<u>1,962,904</u>	<u>84,884</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,980,919)</u>	<u>(1,146,331)</u>	<u>(395,422)</u>	
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,100,000	991,395	310,000	
Transfers To Other Funds	(56,370)			
Total Other Adjustments to Cash (Uses)	<u>2,043,630</u>	<u>991,395</u>	<u>310,000</u>	
Net Change in Cash Balances and Cash Equivalents	62,711	(154,936)	(85,422)	
Cash Balances and Cash Equivalents - Beginning (Restated)	116,198	283,773	164,928	6,527
Cash Balances and Cash Equivalents - Ending	<u>\$ 178,909</u>	<u>\$ 128,837</u>	<u>\$ 79,506</u>	<u>\$ 6,527</u>

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

MARSHALL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES AND CASH EQUIVALENTS - REGULATORY BASIS
For The Year Ended June 30, 2013
(Continued)

Budgeted Funds			Unbudgeted Funds			Total Funds
Emergency 911 Fund	Occupational Tax Administrator Fund	Veterans' Van Fund	Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Jail Canteen Fund	
\$ 217,819	\$ 4,961,744	\$	\$	\$	\$	\$ 7,635,663
						1,178,116
						440,922
						109,376
148,427			497,500			5,041,131
						143,415
2,351	100,000	5,500	1,769	6,754	58,304	726,668
2,128	17,810	29	1	2,556	187	38,267
<u>370,725</u>	<u>5,079,554</u>	<u>5,529</u>	<u>499,270</u>	<u>9,310</u>	<u>58,491</u>	<u>15,313,558</u>
	117,371					2,809,249
374,541						2,363,881
	100,000					315,475
						124,554
					76,277	735,443
						3,093,553
		5,935				5,935
			537,475			564,661
						125,278
134,743						4,021,664
<u>509,284</u>	<u>217,371</u>	<u>5,935</u>	<u>537,475</u>		<u>76,277</u>	<u>14,159,693</u>
(138,559)	4,862,183	(406)	(38,205)	9,310	(17,786)	1,153,865
125,000			39,975			3,566,370
	(3,510,000)					(3,566,370)
<u>125,000</u>	<u>(3,510,000)</u>		<u>39,975</u>			
(13,559)	1,352,183	(406)	1,770	9,310	(17,786)	1,153,865
168,272	1,410,310	3,053	1,138	247,054	162,262	2,563,515
<u>\$ 154,713</u>	<u>\$ 2,762,493</u>	<u>\$ 2,647</u>	<u>\$ 2,908</u>	<u>\$ 256,364</u>	<u>\$ 144,476</u>	<u>\$ 3,717,380</u>

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

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MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2013

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 include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation created 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 Marshall County Refuse Disposal District would have been included in the reporting entity under accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board. However under the regulatory basis they are no longer are required components of the reporting entity. Audits of the following entities can be obtained from the Marshall 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 Government Accounting Standards Board. This basis of accounting involves the reporting of cash and cash equivalents 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, 2013
(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 source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these 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 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 expenditures. 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 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 - This fund is used to account for occupational tax receipts. Occupational tax revenues are recorded in this fund and then transferred to other operating funds as needed.

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

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 general obligation bonds of the Public Properties Corporation, a blended component unit of the fiscal court.

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, a blended component unit of the fiscal court.

Marshall County Jail Canteen 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 or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

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

The State Local Finance Officer does not require the Marshall County Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

The State Local Finance Officer does not require the Public Properties Corporation Justice Center Debt Service and Public Properties Corporation Justice Center Capital Projects Fund. Bond indentures and other relevant contractual provisions require specific payments to and from these funds 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, Kentucky.

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

F. Deposits and Investments

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

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

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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 expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. 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(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2013, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2013.

	General Fund	Occupational Tax Adminstrator Fund	Total Transfers In
General Fund	\$	\$ 2,100,000	\$ 2,100,000
Road Fund	16,395	975,000	991,395
Jail Fund		310,000	310,000
Emergency 911 Fund		125,000	125,000
Public Properties Corporation Justice Center Debt Service Fund	39,975		39,975
Total Transfers Out	<u>\$ 56,370</u>	<u>\$ 3,510,000</u>	<u>\$ 3,566,370</u>

Reason for transfers:

To move resources from the General Fund and Occupational Tax Administrator Fund, for budgetary purposes, to the funds that will expend them.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

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 \$2,100 each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deductions.

Note 5. 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, 2013 was \$4,355,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2014	\$ 455,000	86,250
2015	460,000	81,700
2016	460,000	77,100
2017	470,000	67,900
2018	480,000	58,500
2019-2022	<u>2,030,000</u>	<u>125,900</u>
Totals	<u>\$ 4,355,000</u>	<u>\$ 497,350</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 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, 2013
(Continued)

Note 5. Long-term Debt (Continued)

B. Blacktop Patcher

On October 5, 2012, Marshall County entered into an agreement with KACo 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, 2013, was \$55,249. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Principal	Interest
2014	\$ 11,367	\$ 1,822
2015	12,738	1,371
2016	13,099	906
2017	13,470	429
2018	4,575	34
Totals	<u>\$ 55,249</u>	<u>\$ 4,562</u>

C. Arts Commissions Building

On November 30, 2012, Marshall County entered into an agreement with KACo 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 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. The principal balance as of June 30, 2013 was \$317,273. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Principal	Interest
2014	\$ 4,773	\$ 9,831
2015	5,000	10,214
2016	7,500	10,126
2017	10,000	9,970
2018	10,000	9,745
2019-2023	50,000	45,320
2024-2028	50,000	38,775
2029-2033	50,000	30,880
2034-2038	62,500	22,080
2039-2043	67,500	9,056
Totals	<u>\$ 317,273</u>	<u>\$ 195,997</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 5. Long-term Debt (Continued)

D. Marshall County Caring/Needline Building

On July 3, 2002, Marshall County Fiscal Court entered into a promissory note agreement with CFBSB, formally known as Bank of Benton, for the purchase of an office building. The principal amount was \$114,200 at an effective interest rate of 6.5% for a period of twenty years. In return, Marshall County leased the building to the Marshall County Caring/Needline. After an initial payment of \$50,000 which was used as a down payment on the purchase of the property, the Marshall County Caring/Needline has agreed to pay Marshall County Fiscal Court rental payments in amounts equal to the annual loan payments as stipulated in a lease agreement dated July 3, 2002. Upon the retirement of the debt, Marshall County Fiscal Court agrees to transfer the property to the Marshall County Caring/Needline. The Marshall County Caring/Needline Building was paid off January 25, 2013.

E. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Refunding Bonds	\$4,815,000	\$	\$ 460,000	\$4,355,000	\$ 455,000
Financing Obligations	7,712	384,200	19,390	372,522	16,140
Total Long-term Liabilities	<u>\$4,822,712</u>	<u>\$ 384,200</u>	<u>\$ 479,390</u>	<u>\$4,727,522</u>	<u>\$ 471,140</u>

Note 6. Employee Retirement System

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

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 19.55 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 37.60 percent.

The county's contribution for FY 2011 was \$1,365,847, FY 2012 was \$1,494,200, and FY 2013 was \$1,543,651.

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

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 6. Employee Retirement System (Continued)

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

CERS also provides post retirement health care coverage as follows:

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

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

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

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. 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 permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 7. 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 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 8. Insurance

For the fiscal year ended June 30, 2013, 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 9. 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 10. Commitments and Contingencies

The Marshall County Fiscal Court has 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 is being financed with a loan of \$275,000 and a grant of \$800,000 for a total cost not to exceed \$1,075,000. The project is in the process and total combined cost incurred at June 30, 2013 was \$1,021,986. Upon completion of the project, the Fiscal Court will enter into a loan with the Authority for repayment of the \$275,000. The loan is to be repaid over a period not exceed 20 years from the date the loan is closed. The tanks will ultimately be owned by the City of Benton (Oak Level Tank) and the Jonathan Creek Water District (Brewers Tank) as agreed to by the parties in an Interlocal Cooperative Agreement with the Marshall County Fiscal Court and the City of Benton, Calvert City, City of Hardin, North Marshall Water District, and Jonathan Creek Water District. The Water Districts are reporting the assets on their own financial reports.

Note 11. Related Party Transactions

The Marshall County Fiscal Court entered into catering transactions with Magic Valley BBQ. County Attorney Jeff Edwards owns an interest in Magic Valley BBQ. Marshall County Fiscal Court paid Magic Valley BBQ \$1,420 during fiscal year ended June 30, 2013.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Note 12. Change in Basis of Accounting and Prior Period Adjustments

Marshall County, Kentucky, has changed its basis of accounting from presenting its financial statements in accordance with the modified cash basis of accounting and relevant Government Accounting Standards Board (GASB) pronouncements to the regulatory basis of accounting as prescribed or permitted by the Department for Local Government and the laws of the Commonwealth of Kentucky. The net effect was a decrease to the beginning balance of the General Fund by \$1,413,363 and increase the balance of Occupational Tax Administrator Fund and Veterans' Van Fund by \$1,410,310 and \$3,053 respectively on the Statement of Receipts, Disbursements, and Changes in Cash Balances and Cash Equivalents - Regulatory Basis.

**MARSHALL COUNTY
SUPPLEMENTARY SCHEDULES
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2013

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2013

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 2,225,000	\$ 2,427,000	\$ 2,456,100	\$ 29,100
In Lieu Tax Payments	1,135,000	1,175,000	1,178,116	3,116
Excess Fees	200,000	440,922	440,922	
Licenses and Permits	125,000	125,000	109,376	(15,624)
Intergovernmental Revenue	355,250	586,528	494,383	(92,145)
Miscellaneous	315,000	441,410	514,678	73,268
Interest	8,030	8,030	7,900	(130)
Total Revenues	<u>4,363,280</u>	<u>5,203,890</u>	<u>5,201,475</u>	<u>(2,415)</u>
DISBURSEMENTS				
General Government	2,695,925	2,839,756	2,691,878	147,878
Protection to Persons and Property	586,900	671,060	603,163	67,897
General Health and Sanitation	125,500	134,039	130,591	3,448
Social Services	133,700	143,800	124,554	19,246
Recreation and Culture	620,950	666,532	659,166	7,366
Debt Service	118,000	266,239	16,433	249,806
Capital Projects			125,278	(125,278)
Administration	2,966,485	3,459,883	2,831,331	628,552
Total Expenditures	<u>7,247,460</u>	<u>8,181,309</u>	<u>7,182,394</u>	<u>998,915</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,884,180)</u>	<u>(2,977,419)</u>	<u>(1,980,919)</u>	<u>996,500</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,780,930	2,780,930	2,100,000	(680,930)
Transfers To Other Funds			(16,395)	(16,395)
Borrowed Money		93,239		(93,239)
Total Other Adjustments to Cash (Uses)	<u>2,780,930</u>	<u>2,874,169</u>	<u>2,083,605</u>	<u>(790,564)</u>
Net Change in Cash Balances and Cash Equivalents	(103,250)	(103,250)	102,686	205,936
Cash Balances and Cash Equivalents - Beginning (Restated)	<u>103,250</u>	<u>103,250</u>	<u>116,198</u>	<u>12,948</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 218,884</u>	<u>\$ 218,884</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental Revenue	\$ 1,805,555	\$ 2,423,252	\$ 2,290,992	\$ (132,260)
Charges for Services	5,500	125,500	120,770	(4,730)
Miscellaneous	3,500	4,274	19,004	14,730
Interest	7,000	7,000	6,072	(928)
Total Revenues	<u>1,821,555</u>	<u>2,560,026</u>	<u>2,436,838</u>	<u>(123,188)</u>
DISBURSEMENTS				
Roads	3,069,325	3,559,215	3,093,553	465,662
Debt Service			10,753	(10,753)
Administration	537,800	786,381	478,863	307,518
Total Expenditures	<u>3,607,125</u>	<u>4,345,596</u>	<u>3,583,169</u>	<u>762,427</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,785,570)</u>	<u>(1,785,570)</u>	<u>(1,146,331)</u>	<u>639,239</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,775,570	1,775,570	991,395	(784,175)
Total Other Adjustments to Cash (Uses)	<u>1,775,570</u>	<u>1,775,570</u>	<u>991,395</u>	<u>(784,175)</u>
Net Change in Cash Balances and Cash Equivalents	(10,000)	(10,000)	(154,936)	(144,936)
Cash Balances and Cash Equivalents - Beginning	<u>10,000</u>	<u>10,000</u>	<u>283,773</u>	<u>273,773</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 128,837</u>	<u>\$ 128,837</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental Revenue	\$ 1,367,000	\$ 1,469,969	\$ 1,524,945	\$ 54,976
Charges for Services	25,000	25,000	22,645	(2,355)
Miscellaneous	19,000	19,000	18,308	(692)
Interest	1,000	1,000	1,584	584
Total Revenues	<u>1,412,000</u>	<u>1,514,969</u>	<u>1,567,482</u>	<u>52,513</u>
DISBURSEMENTS				
Protection to Persons and Property	1,426,900	1,510,569	1,386,177	124,392
Administration	628,600	757,900	576,727	181,173
Total Expenditures	<u>2,055,500</u>	<u>2,268,469</u>	<u>1,962,904</u>	<u>305,565</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(643,500)</u>	<u>(753,500)</u>	<u>(395,422)</u>	<u>358,078</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	593,500	593,500	310,000	(283,500)
Total Other Adjustments to Cash (Uses)	<u>593,500</u>	<u>593,500</u>	<u>310,000</u>	<u>(283,500)</u>
Net Change in Cash Balances and Cash Equivalents	(50,000)	(160,000)	(85,422)	74,578
Cash Balances and Cash Equivalents - Beginning	50,000	160,000	164,928	4,928
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 79,506</u>	<u>\$ 79,506</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental Revenue	\$ 300,000	\$ 456,792	\$ 84,884	\$ (371,908)
Total Revenues	<u>300,000</u>	<u>456,792</u>	<u>84,884</u>	<u>(371,908)</u>
DISBURSEMENTS				
General Health and Sanitation	300,000	456,792	84,884	371,908
Total Expenditures	<u>300,000</u>	<u>456,792</u>	<u>84,884</u>	<u>371,908</u>
Net Change in Cash Balances and Cash Equivalents				
Cash Balances and Cash Equivalents - Beginning			<u>6,527</u>	<u>6,527</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,527</u>	<u>\$ 6,527</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

	EMERGENCY 911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 230,000	\$ 230,000	\$ 217,819	\$ (12,181)
Intergovernmental Revenue	160,000	160,000	148,427	(11,573)
Miscellaneous			2,351	2,351
Interest	1,500	1,500	2,128	628
Total Revenues	<u>391,500</u>	<u>391,500</u>	<u>370,725</u>	<u>(20,775)</u>
DISBURSEMENTS				
Protection to Persons and Property	381,750	387,115	374,541	12,574
Administration	299,750	294,385	134,743	159,642
Total Expenditures	<u>681,500</u>	<u>681,500</u>	<u>509,284</u>	<u>172,216</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(290,000)</u>	<u>(290,000)</u>	<u>(138,559)</u>	<u>151,441</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	125,000	125,000	125,000	
Total Other Adjustments to Cash (Uses)	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	
Net Change in Cash Balances and Cash Equivalents	(165,000)	(165,000)	(13,559)	151,441
Cash Balances and Cash Equivalents - Beginning	165,000	165,000	168,272	3,272
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 154,713</u>	<u>\$ 154,713</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

OCCUPATIONAL TAX ADMINISTRATOR FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 4,250,000	\$ 4,930,000	\$ 4,961,744	\$ 31,744
Miscellaneous	200,000	200,000	100,000	(100,000)
Interest	25,000	25,000	17,810	(7,190)
Total Revenues	4,475,000	5,155,000	5,079,554	(75,446)
DISBURSEMENTS				
General Government	100,000	120,000	117,371	2,629
General Health and Sanitation	200,000	200,000	100,000	100,000
Administration		660,000		660,000
Total Expenditures	300,000	980,000	217,371	762,629
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	4,175,000	4,175,000	4,862,183	687,183
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(5,275,000)	(5,275,000)	(3,510,000)	1,765,000
Total Other Adjustments to Cash (Uses)	(5,275,000)	(5,275,000)	(3,510,000)	1,765,000
Net Change in Cash Balances and Cash Equivalents	(1,100,000)	(1,100,000)	1,352,183	2,452,183
Cash Balances and Cash Equivalents - Beginning	1,100,000	1,100,000	1,410,310	310,310
Cash Balances and Cash Equivalents - Ending	\$ 0	\$ 0	\$ 2,762,493	\$ 2,762,493

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2013
(Continued)

VETERANS' VAN FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Miscellaneous	\$ 5,500	\$ 5,500	\$ 5,500	\$
Interest			29	29
Total Revenues	<u>5,500</u>	<u>5,500</u>	<u>5,529</u>	<u>29</u>
DISBURSEMENTS				
Other Transportation Facilities and Services	<u>6,000</u>	<u>6,000</u>	5,935	65
Total Expenditures	<u>6,000</u>	<u>6,000</u>	<u>5,935</u>	<u>65</u>
Net Change in Cash Balances and Cash Equivalents	(500)	(500)	(406)	94
Cash Balances and Cash Equivalents - Beginning	<u>500</u>	<u>500</u>	<u>3,053</u>	<u>2,553</u>
Cash Balances and Cash Equivalents - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,647</u>	<u>\$ 2,647</u>

MARSHALL COUNTY
NOTES TO SUPPLEMENTARY INFORMATION

June 30, 2013

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

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

Capital Projects expenditures in the General Fund exceeded budgeted appropriations by \$125,278.

Note 2. Reconciliation of the General Fund

Total Other Adjustments to Cash (Uses) - Budgetary Basis	\$ 2,083,605
Transfer to Debt PPC from General Fund	<u>(39,975)</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u><u>\$ 2,043,630</u></u>

**MARSHALL COUNTY
SUPPLEMENTARY SCHEDULE
Other Information - Regulatory Basis
For The Year Ended June 30, 2013**

MARSHALL COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2013

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	\$	\$	\$ 2,174,113
Buildings	15,640,791	90,624		15,731,415
Vehicles and Equipment	6,217,960	444,800	50,849	6,611,911
Infrastructure	9,854,999	1,208,447		11,063,446
Total Capital Assets	<u>\$ 33,887,863</u>	<u>\$ 1,743,871</u>	<u>\$ 50,849</u>	<u>\$35,580,885</u>

MARSHALL COUNTY
NOTES TO OTHER INFORMATION

June 30, 2013

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

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Vehicles and Equipment	\$ 2,500	3-25
Infrastructure	\$ 10,000	2-40

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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mike Miller, 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 Cash Balances and Cash Equivalents - Regulatory Basis of the Marshall County Fiscal Court for the fiscal year ended June 30, 2013 and the related notes to the financial statement and have issued our report thereon dated December 13, 2013. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

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 to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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. *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.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, which are described in the accompanying comments and recommendations as items 2013-01 and 2013-02 that we consider to be significant deficiencies.



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

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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and is described in the accompanying comments and recommendations as item 2013-02.

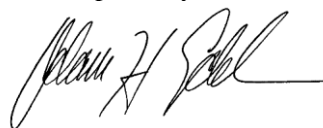
County Judges' Response to Findings

The Marshall County Judge's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The County Judge'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,



Adam H. Edelen
Auditor of Public Accounts

December 13, 2013

**MARSHALL COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2012

MARSHALL COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2012

FINANCIAL STATEMENT FINDINGS:

2013-01 The Marshall County Fiscal Court Lacks Adequate Segregation Of Duties Over Revenues And Receipts

The Marshall County Fiscal Court has a lack of adequate segregation of duties over revenues and receipts. Due to a limited number of staff and the diversity of operations, the Treasurer is required to perform multiple tasks such as posting to the receipts ledger, preparing bank deposits, preparing bank reconciliations, and preparing financial reports. The Occupational Tax Administrator posts occupational tax collections to the occupational tax subsidiary ledger and prepares bank deposits.

A lack of segregation of duties or strong oversight increases the risk that errors could occur and not be detected. This condition is the result of a limited budget, which restricts the number of employees the county is willing to hire or delegate duties to.

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.

As a result, we recommend the County implement compensating controls to offset the lack of segregation of duties. Routine controls such as the comparison of the daily/monthly revenue journals to deposits as well as fiscal court or other review of the receipts ledger and bank reconciliation are controls that can be implemented by the County to reduce the risk that fraud or errors go undetected.

County Judge/Executive Mike Miller's Response: We will take recommendations into consideration and implement changes where we feel both internal controls and time management could be improved.

2013-02 The Marshall County Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping

During testing of payroll, auditors noted three instances where time cards were not maintained by salaried employees. According to KRS 337.320, "Every employer shall keep a record of... the hours worked each day and each week by each employee." Good internal controls dictate that all timesheets be signed by employees and have supervisory approval.

In order to strengthen internal controls over payroll and ensure compliance with KRS 337.320, we recommend that the Finance Officer and/or Treasurer ensure that the employees and employee supervisors have signed timesheets prior to processing payroll. All employees, with the exception of elected officials, should be required to maintain a time sheet.

County Judge/Executive Mike Miller's Response: The Road Department Salaried Employees that are not keeping time sheet will be instructed to begin using the time clock to account for their hours as soon as possible.

