

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

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MARSHALL COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Marshall County Fiscal Court for fiscal year ended June 30, 2014.

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, Kentucky.

Financial Condition:

The Marshall County Fiscal Court had total receipts of \$15,590,591 and disbursements of \$14,801,013 in fiscal year 2014. This resulted in a total ending fund balance of \$4,506,958, which is an increase of \$789,578 from the prior year.

Report Comment:

- 2014-01 The Marshall County Fiscal Court Lacks Adequate Segregation Of Duties Over Revenues And Receipts
- 2014-02 The Marshall County Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping
- 2014-03 The Jail 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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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 Chyrrill Miller, Marshall County Judge/Executive

Honorable Mike Miller, Former 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 Marshall County, Kentucky, for the year ended June 30, 2014, 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 in 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, 2014, 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 Marshall County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

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, 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. 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 and the capital asset schedule 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 and the capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2015 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 comment and recommendation included herein, which discusses the following report comment:

- 2014-01 The Marshall County Fiscal Court Lacks Adequate Segregation Of Duties Over Revenues And Receipts
- 2014-02 The Marshall County Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping
- 2014-03 The Jail Has A Lack Of Segregation Of Duties Over Jail Commissary Operations

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

January 30, 2015

MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2014

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 FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2014

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

For The Year Ended June 30, 2014

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Federal Grant Fund
RECEIPTS				
Taxes	\$ 2,500,554	\$	\$	\$
In Lieu Tax Payments	1,171,798			
Excess Fees	435,570			
Licenses and Permits	129,090			
Intergovernmental	545,968	2,302,850	1,314,391	27,813
Charges for Services	8,000	3,741	23,100	
Miscellaneous	617,610	38,854	47,962	
Interest	10,281	6,053	1,307	
Total Receipts	<u>5,418,871</u>	<u>2,351,498</u>	<u>1,386,760</u>	<u>27,813</u>
DISBURSEMENTS				
General Government	2,747,702			
Protection to Persons and Property	582,352		1,340,000	
General Health and Sanitation	270,169			27,813
Social Services	125,599			
Recreation and Culture	704,386			
Roads		3,514,926		
Other Transportation Facilities and Services				
Debt Service	21,904	14,200		
Capital Projects	254,748			
Administration	2,935,398	501,379	555,907	
Total Disbursements	<u>7,642,258</u>	<u>4,030,505</u>	<u>1,895,907</u>	<u>27,813</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,223,387)</u>	<u>(1,679,007)</u>	<u>(509,147)</u>	
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	2,420,000	1,725,000	580,000	
Transfers To Other Funds	(43,750)			
Total Other Adjustments to Cash (Uses)	<u>2,376,250</u>	<u>1,725,000</u>	<u>580,000</u>	
Net Change in Fund Balance	152,863	45,993	70,853	
Fund Balances - Beginning	178,909	128,837	79,506	6,527
Fund Balances - Ending	<u>\$ 331,772</u>	<u>\$ 174,830</u>	<u>\$ 150,359</u>	<u>\$ 6,527</u>
Composition of Fund Balance				
Bank Balance	\$ 419,895	\$ 758,941	\$ 185,987	\$ 6,527
Less: Outstanding Checks	<u>(88,123)</u>	<u>(584,111)</u>	<u>(35,628)</u>	
Fund Balance - Ending	<u>\$ 331,772</u>	<u>\$ 174,830</u>	<u>\$ 150,359</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 FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(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 Commissary Fund	
\$ 199,202	\$ 5,431,128	\$	\$	\$	\$	\$ 8,130,884
						1,171,798
						435,570
						129,090
166,051			497,500			4,854,573
		3,000			77,459	34,841
1,787	26,679	19	1	2,628	195	784,885
<u>367,040</u>	<u>5,457,807</u>	<u>3,019</u>	<u>497,501</u>	<u>2,628</u>	<u>77,654</u>	<u>15,590,591</u>
	108,961					2,856,663
377,354						2,299,706
						297,982
						125,599
					40,831	745,217
						3,514,926
		5,535				5,535
			541,250			577,354
						254,748
<u>130,599</u>	<u>108,961</u>	<u>5,535</u>	<u>541,250</u>	<u></u>	<u>40,831</u>	<u>4,123,283</u>
<u>507,953</u>	<u>108,961</u>	<u>5,535</u>	<u>541,250</u>	<u></u>	<u>40,831</u>	<u>14,801,013</u>
<u>(140,913)</u>	<u>5,348,846</u>	<u>(2,516)</u>	<u>(43,749)</u>	<u>2,628</u>	<u>36,823</u>	<u>789,578</u>
125,000		2,500	43,750			4,896,250
	(4,852,500)					(4,896,250)
<u>125,000</u>	<u>(4,852,500)</u>	<u>2,500</u>	<u>43,750</u>	<u></u>	<u></u>	<u></u>
(15,913)	496,346	(16)	1	2,628	36,823	789,578
154,713	2,762,493	2,647	2,908	256,364	144,476	3,717,380
<u>\$ 138,800</u>	<u>\$ 3,258,839</u>	<u>\$ 2,631</u>	<u>\$ 2,909</u>	<u>\$ 258,992</u>	<u>\$ 181,299</u>	<u>\$ 4,506,958</u>
\$ 138,915	\$ 3,314,894	\$ 2,631	\$ 2,909	\$ 258,992	\$ 181,299	\$ 5,270,990
(115)	(56,055)					(764,032)
<u>\$ 138,800</u>	<u>\$ 3,258,839</u>	<u>\$ 2,631</u>	<u>\$ 2,909</u>	<u>\$ 258,992</u>	<u>\$ 181,299</u>	<u>\$ 4,506,958</u>

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, 2014

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 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 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 it is no longer a required component of the reporting entity. Audits of the following entity 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 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, 2014
(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 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 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 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.

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, 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.

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, 2014
(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 Government 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 disbursement 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 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

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

The government's fund balances 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(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, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Occupational Tax Administrator Fund	Total Transfers In
General Fund	\$	\$ 2,420,000	\$ 2,420,000
Road Fund		1,725,000	1,725,000
Jail Fund		580,000	580,000
E 911 Fund		125,000	125,000
Veterans' Van Fund		2,500	2,500
Public Properties Corporation Justice Center Debt Service Fund	<u>43,750</u>		<u>43,750</u>
Total Transfers Out	<u>\$ 43,750</u>	<u>\$ 4,852,500</u>	<u>\$ 4,896,250</u>

Reason for transfers:

To move resources from and to the General Fund and Occupational Tax Administrator Fund, 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, 2014 was \$13,417.

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, 2014 was \$3,900,000. Future principal and interest requirements are:

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

A. General Obligation Refunding Bonds, Series 2012

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 460,000	\$ 81,700
2016	460,000	77,100
2017	470,000	67,900
2018	480,000	58,500
2019	490,000	48,900
2020-2022	1,540,000	77,000
Totals	<u>\$ 3,900,000</u>	<u>\$ 411,100</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.

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, 2014, was \$42,834. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 11,690	\$ 1,239
2016	13,099	906
2017	13,470	428
2018	4,575	34
Totals	<u>\$ 42,834</u>	<u>\$ 2,607</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 the end of the debt service term. The principal balance as of June 30, 2014 was \$312,083. Future principal and interest payments are as follows:

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

C. Arts Commissions Building (Continued)

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 4,583	\$ 9,359
2016	7,500	10,126
2017	10,000	9,970
2018	10,000	9,745
2019	10,000	9,520
2020-2024	50,000	44,130
2025-2029	50,000	37,275
2030-2034	50,000	29,230
2035-2039	67,500	19,881
2040-2043	52,500	6,075
Totals	<u>\$ 312,083</u>	<u>\$ 185,311</u>

D. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Refunding Bonds	\$4,355,000	\$	\$ 455,000	\$3,900,000	\$ 460,000
Financing Obligations	372,522		17,605	354,917	16,273
Total Long-term Liabilities	<u>\$4,727,522</u>	<u>\$ 0</u>	<u>\$ 472,605</u>	<u>\$4,254,917</u>	<u>\$ 476,273</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 18.89 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 35.70 percent.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Employee Retirement System (Continued)

The county's contribution for FY 2012 was \$1,494,200, FY 2013 was \$1,543,651, and FY 2014 was \$1,548,929.

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.

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.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

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.

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, 2014, 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, 2014 was \$1,027,029. 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.

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MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,235,000	\$ 2,260,000	\$ 2,500,554	\$ 240,554
In Lieu Tax Payments	1,135,000	1,135,000	1,171,798	36,798
Excess Fees	185,000	435,064	435,570	506
Licenses and Permits	107,500	107,862	129,090	21,228
Intergovernmental	348,400	471,259	545,968	74,709
Charges for Services		8,000	8,000	
Miscellaneous	316,000	593,793	617,610	23,817
Interest	4,500	4,500	10,281	5,781
Total Receipts	<u>4,331,400</u>	<u>5,015,478</u>	<u>5,418,871</u>	<u>403,393</u>
DISBURSEMENTS				
General Government	2,746,175	2,925,945	2,747,702	178,243
Protection to Persons and Property	580,900	612,751	582,352	30,399
General Health and Sanitation	168,100	287,667	270,169	17,498
Social Services	144,100	163,100	125,599	37,501
Recreation and Culture	702,600	738,593	704,386	34,207
Debt Service	119,749	119,749	21,904	97,845
Capital Projects	80,000	254,748	254,748	
Administration	3,170,300	3,293,449	2,935,398	358,051
Total Disbursements	<u>7,711,924</u>	<u>8,396,002</u>	<u>7,642,258</u>	<u>753,744</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(3,380,524)</u>	<u>(3,380,524)</u>	<u>(2,223,387)</u>	<u>1,157,137</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	3,330,524	3,330,524	2,420,000	(910,524)
Transfers To Other Funds			<u>(43,750)</u>	<u>(43,750)</u>
Total Other Adjustments to Cash (Uses)	<u>3,330,524</u>	<u>3,330,524</u>	<u>2,376,250</u>	<u>(954,274)</u>
Net Change in Fund Balance	(50,000)	(50,000)	152,863	202,863
Fund Balance - Beginning	50,000	50,000	178,909	128,909
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 331,772</u>	<u>\$ 331,772</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,022,526	\$ 2,462,270	\$ 2,302,850	\$ (159,420)
Charges for Services	1,500	1,500	3,741	2,241
Miscellaneous	1,500	5,867	38,854	32,987
Interest	5,000	5,000	6,053	1,053
Total Receipts	<u>2,030,526</u>	<u>2,474,637</u>	<u>2,351,498</u>	<u>(123,139)</u>
DISBURSEMENTS				
Roads	3,287,300	3,654,367	3,514,926	139,441
Debt Service		14,300	14,200	100
Administration	506,000	568,744	501,379	67,365
Total Disbursements	<u>3,793,300</u>	<u>4,237,411</u>	<u>4,030,505</u>	<u>206,906</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,762,774)</u>	<u>(1,762,774)</u>	<u>(1,679,007)</u>	<u>83,767</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>1,652,774</u>	<u>1,652,774</u>	<u>1,725,000</u>	<u>72,226</u>
Total Other Adjustments to Cash (Uses)	<u>1,652,774</u>	<u>1,652,774</u>	<u>1,725,000</u>	<u>72,226</u>
Net Change in Fund Balance	(110,000)	(110,000)	45,993	155,993
Fund Balance - Beginning	<u>110,000</u>	<u>110,000</u>	<u>128,837</u>	<u>18,837</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 174,830</u>	<u>\$ 174,830</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,448,000	\$ 1,448,000	\$ 1,314,391	\$ (133,609)
Charges for Services	23,000	23,000	23,100	100
Miscellaneous	19,000	31,000	47,962	16,962
Interest	1,000	1,000	1,307	307
Total Receipts	<u>1,491,000</u>	<u>1,503,000</u>	<u>1,386,760</u>	<u>(116,240)</u>
DISBURSEMENTS				
Protection to Persons and Property	1,509,400	1,509,400	1,340,000	169,400
Administration	644,100	656,100	555,907	100,193
Total Disbursements	<u>2,153,500</u>	<u>2,165,500</u>	<u>1,895,907</u>	<u>269,593</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(662,500)</u>	<u>(662,500)</u>	<u>(509,147)</u>	<u>153,353</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>587,500</u>	<u>587,500</u>	<u>580,000</u>	<u>(7,500)</u>
Total Other Adjustments to Cash (Uses)	<u>587,500</u>	<u>587,500</u>	<u>580,000</u>	<u>(7,500)</u>
Net Change in Fund Balance	(75,000)	(75,000)	70,853	145,853
Fund Balance - Beginning	<u>75,000</u>	<u>75,000</u>	<u>79,506</u>	<u>4,506</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 150,359</u>	<u>\$ 150,359</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 150,000	\$ 160,542	\$ 27,813	\$ (132,729)
Total Receipts	<u>150,000</u>	<u>160,542</u>	<u>27,813</u>	<u>(132,729)</u>
DISBURSEMENTS				
General Health and Sanitation	150,000	160,542	27,813	132,729
Total Disbursements	<u>150,000</u>	<u>160,542</u>	<u>27,813</u>	<u>132,729</u>
Net Change in Fund Balance			6,527	6,527
Fund Balance - Beginning			<u>6,527</u>	<u>6,527</u>
Fund Balance - 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, 2014
(Continued)

EMERGENCY 911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 225,000	\$ 225,000	\$ 199,202	\$ (25,798)
Intergovernmental	135,000	135,000	166,051	31,051
Interest	1,000	1,000	1,787	787
Total Receipts	<u>361,000</u>	<u>361,000</u>	<u>367,040</u>	<u>6,040</u>
DISBURSEMENTS				
Protection to Persons and Property	390,300	403,470	377,354	26,116
Administration	235,700	222,530	130,599	91,931
Total Disbursements	<u>626,000</u>	<u>626,000</u>	<u>507,953</u>	<u>118,047</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(265,000)</u>	<u>(265,000)</u>	<u>(140,913)</u>	<u>124,087</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	
Total Other Adjustments to Cash (Uses)	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	
Net Change in Fund Balance	(140,000)	(140,000)	(15,913)	124,087
Fund Balance - Beginning	<u>140,000</u>	<u>140,000</u>	<u>154,713</u>	<u>14,713</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 138,800</u>	<u>\$ 138,800</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

OCCUPATIONAL TAX ADMINISTRATOR FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 4,300,000	\$ 4,300,000	\$ 5,431,128	\$ 1,131,128
Interest	6,000	6,000	26,679	20,679
Total Receipts	<u>4,306,000</u>	<u>4,306,000</u>	<u>5,457,807</u>	<u>1,151,807</u>
DISBURSEMENTS				
General Government	125,000	125,000	108,961	16,039
Administration	835,202	835,202		835,202
Total Disbursements	<u>960,202</u>	<u>960,202</u>	<u>108,961</u>	<u>851,241</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>3,345,798</u>	<u>3,345,798</u>	<u>5,348,846</u>	<u>2,003,048</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(5,695,798)</u>	<u>(5,695,798)</u>	<u>(4,852,500)</u>	<u>843,298</u>
Total Other Adjustments to Cash (Uses)	<u>(5,695,798)</u>	<u>(5,695,798)</u>	<u>(4,852,500)</u>	<u>843,298</u>
Net Change in Fund Balance	(2,350,000)	(2,350,000)	496,346	2,846,346
Fund Balance - Beginning	<u>2,350,000</u>	<u>2,350,000</u>	<u>2,762,493</u>	<u>412,493</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,258,839</u>	<u>\$ 3,258,839</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

VETERANS' VAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 4,000	\$ 4,000	\$ 3,000	\$ (1,000)
Interest	10	10	19	9
Total Receipts	<u>4,010</u>	<u>4,010</u>	<u>3,019</u>	<u>(991)</u>
DISBURSEMENTS				
Other Transportation Facilities and Services	<u>7,110</u>	<u>7,110</u>	<u>5,535</u>	<u>1,575</u>
Total Disbursements	<u>7,110</u>	<u>7,110</u>	<u>5,535</u>	<u>1,575</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,100)</u>	<u>(3,100)</u>	<u>(2,516)</u>	<u>584</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			<u>2,500</u>	<u>2,500</u>
Total Other Adjustments to Cash (Uses)			<u>2,500</u>	<u>2,500</u>
Net Change in Fund Balance	(3,100)	(3,100)	(16)	3,084
Fund Balance - Beginning	<u>3,100</u>	<u>3,100</u>	<u>2,647</u>	<u>(453)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,631</u>	<u>\$ 2,631</u>

MARSHALL COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

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 Government 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.

MARSHALL COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

MARSHALL COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

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	15,731,415			15,731,415
Vehicles and Equipment	6,611,911	483,083	227,492	6,867,502
Infrastructure	<u>11,063,446</u>	<u>1,110,224</u>	<u> </u>	<u>12,173,670</u>
 Total Capital assets	 <u>\$ 35,580,885</u>	 <u>\$ 1,593,307</u>	 <u>\$ 227,492</u>	 <u>\$36,946,700</u>

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

June 30, 2014

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	\$ 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**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Chyrrill Miller, Marshall County Judge/Executive
The Honorable Mike Miller, Former 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, 2014 and the related notes to the financial statement and have issued our report thereon dated January 30, 2015. 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 2014-01, 2014-02, and 2014-03 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 2014-02.

County Judge's Responses 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

January 30, 2015

**MARSHALL COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

MARSHALL COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS:

2014-01 The Marshall County Fiscal Court Lacks 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 Chyrill Miller's Response: We will take recommendations into consideration and implement changes where we fell both internal controls and time management could be improved.

2014-02 The Marshall County Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping

During testing of payroll, auditors noted two 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 Chyrill Miller's Response: Procedures will be evaluated and modified where necessary for the efficiency of our county government.

**MARSHALL COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued):

2014-03 The Jail Has A Lack Of Segregation Of Duties Over Jail Commissary Operations

The jail lacks an adequate segregation of duties over the jail commissary operations. Segregation of duties over the collections of receipts, deposit preparation, bank reconciliations, and other accounting functions is essential for providing protection from asset misappropriation and/or 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.

Jailer's Response: No response provided.

