

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

**For The Fiscal Year Ended
June 30, 2012**



**ADAM H. EDELEN
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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

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Marshall County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MARSHALL COUNTY FISCAL COURT

June 30, 2012

Tichenor & Associates, LLP has completed the audit of the Marshall County Fiscal Court for fiscal year ended June 30, 2012. They have issued unqualified opinions, based on their audit and the report of the other auditors, on the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky.

In accordance with OMB Circular A-133, they have issued an unqualified opinion on the compliance requirements that are applicable to Marshall County's major federal program: Community Development Block Grant/States Program (CFDA #14.228).

Financial Condition:

The Fiscal Court had total net assets of \$19,454,796 as of June 30, 2012. Of this amount, the Fiscal Court had unrestricted net assets of \$2,100,006 in its governmental activities, with total net assets of \$19,292,534. In its business-type activities, total cash and cash equivalents were \$162,262 with total net assets of \$162,262. The Fiscal Court's discretely presented component unit had net assets of \$1,846,898 as of June 30, 2012. The discretely presented component unit had cash and cash equivalents of \$453,838. The Fiscal Court had total debt principal as of June 30, 2012 of \$4,822,712 with \$467,712 due within the next year.

Report Comments:

- 2012-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2012-02 The Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping
- 2012-03 The Fiscal Court Has A Deficit of \$150,650 In The Payroll Revolving Account

Deposits:

The Fiscal Court and component unit's deposits were insured and collateralized by bank securities.

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TICHENOR & ASSOCIATES, LLP
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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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Marshall County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marshall County Refuse Disposal District, which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Marshall County Refuse Disposal District, is based on the report of the other auditors.

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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Marshall County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based upon our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marshall County, Kentucky's basic financial statements as a whole. The combining fund financial statements and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. 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 statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and schedule of expenditures of federal awards are fairly stated in all material respects, in relation to the basic financial statements as a whole. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2012 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 schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2012-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2012-02 The Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping
- 2012-03 The Fiscal Court Has A Deficit of \$150,650 In The Payroll Revolving Account

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Certified Public Accountants

December 19, 2012

MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2012

Fiscal Court Members:

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

Other Elected Officials:

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

Appointed Personnel:

Emily Martin	County Treasurer
Angie Murphy	Occupational Tax Collector (thru 12/19/11)
Brenda Edwards	Occupational Tax Collector (began 1/3/12)
Karen Freeman	Finance Officer
Russell York	Road Supervisor
Jason Luebker	911 Administrator
Darla Dillon/Laurie Ford	Jail Administrative Assistant/Bookkeeper

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**MARSHALL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2012

MARSHALL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Marshall County Refuse Disposal District
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 2,401,253	\$ 162,262	\$ 2,563,515	\$ 453,838
Total Current Assets	<u>2,401,253</u>	<u>162,262</u>	<u>2,563,515</u>	<u>453,838</u>
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	2,174,113		2,174,113	723,488
Buildings	11,153,631		11,153,631	160,530
Vehicles and Equipment	2,418,475		2,418,475	527,820
Infrastructure	5,967,774		5,967,774	
Total Noncurrent Assets	<u>21,713,993</u>		<u>21,713,993</u>	<u>1,411,838</u>
Total Assets	<u>24,115,246</u>	<u>162,262</u>	<u>24,277,508</u>	<u>1,865,676</u>
LIABILITIES				
Current Liabilities:				
Bonds Payable	460,000		460,000	
Financing Obligations	7,712		7,712	
Payroll Liabilities				18,778
Total Current Liabilities	<u>467,712</u>		<u>467,712</u>	<u>18,778</u>
Noncurrent Liabilities:				
Bonds Payable	4,355,000		4,355,000	
Total Liabilities	<u>4,822,712</u>		<u>4,822,712</u>	<u>18,778</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	16,891,281		16,891,281	1,411,838
Restricted for:				
Roads	46,528		46,528	
General Health and Sanitation	6,527		6,527	
Debt Service	1,138		1,138	
Capital Projects	247,054		247,054	
Unrestricted	<u>2,100,006</u>	<u>162,262</u>	<u>2,262,268</u>	<u>435,060</u>
Total Net Assets	<u>\$ 19,292,534</u>	<u>\$ 162,262</u>	<u>\$ 19,454,796</u>	<u>\$ 1,846,898</u>

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

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**MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2012

MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 6,412,298	\$ 130,027	\$ 913,935	\$ 80,872
Protection to Persons and Property	2,633,099	1,443,038	389,551	17,908
General Health and Sanitation	1,294,730			1,027,178
Social Services	163,984			
Recreation and Culture	738,295			
Roads	3,487,136	7,394	433,548	1,765,901
Other Transportation Facilities	5,973			
Interest on Long-Term Debt	404,755			
Capital Projects	80,000			
Total Governmental Activities	15,220,270	1,580,459	1,737,034	2,891,859
Business-type Activities:				
Jail Canteen	45,718	64,595		
Total Business-type Activities	45,718	64,595		
Total Primary Government	\$ 15,265,988	\$ 1,645,054	\$ 1,737,034	\$ 2,891,859
Component Units:				
Marshall County Refuse Disposal District	1,989,861			
Total Component Units	\$ 1,989,861	\$ 0	\$ 0	\$ 0

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Occupational Taxes
Other Taxes
In Lieu Of Tax
Excess Fees
Miscellaneous Revenues
Transfers
Interest Earned

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

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

MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2012
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit Marshall County Refuse Disposal District
Governmental Activities	Business-Type Activities	Totals	
\$ (5,287,464)	\$	\$ (5,287,464)	\$
(782,602)		(782,602)	
(267,552)		(267,552)	
(163,984)		(163,984)	
(738,295)		(738,295)	
(1,280,293)		(1,280,293)	
(5,973)		(5,973)	
(404,755)		(404,755)	
(80,000)		(80,000)	
(9,010,918)		(9,010,918)	
	18,877	18,877	
	18,877	18,877	
(9,010,918)	18,877	(8,992,041)	
			(1,989,861)
			(1,989,861)
1,611,982		1,611,982	
69,348		69,348	
263,287		263,287	
4,986,533		4,986,533	
606,856		606,856	1,658,675
1,207,472		1,207,472	
224,996		224,996	
399,501		399,501	125,547
			100,000
76,260	228	76,488	7,131
9,446,235	228	9,446,463	1,891,353
435,317	19,105	454,422	(98,508)
18,857,217	143,157	19,000,374	1,945,406
<u>\$ 19,292,534</u>	<u>\$ 162,262</u>	<u>\$ 19,454,796</u>	<u>\$ 1,846,898</u>

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

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MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2012

MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2012

	General Fund	Road Fund	Jail Fund	Federal Grant Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,529,561	\$ 283,773	\$ 164,928	\$ 6,527
Total Assets	1,529,561	283,773	164,928	6,527
FUND BALANCES				
Restricted For:				
Roads		46,528		
General Health and Sanitation				6,527
Debt Service				
Capital Projects				
Assigned To:				
Protection to Persons and Property				
Roads		237,245	164,928	
Unassigned	1,529,561			
Total Fund Balances	\$ 1,529,561	\$ 283,773	\$ 164,928	\$ 6,527

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

MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2012
(Continued)

Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$ 1,138	\$ 247,054	\$ 168,272	\$ 2,401,253
<u>1,138</u>	<u>247,054</u>	<u>168,272</u>	<u>2,401,253</u>
			46,528
			6,527
1,138			1,138
	247,054		247,054
		168,272	168,272
			402,173
			<u>1,529,561</u>
<u>\$ 1,138</u>	<u>\$ 247,054</u>	<u>\$ 168,272</u>	<u>\$ 2,401,253</u>

Reconciliation Of The Balance Sheet - Governmental Funds To The Statement of Net Assets:

Total Fund Balances	\$ 2,401,253
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Funds.	33,887,863
Accumulated Depreciation	(12,173,870)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Due In One Year-Bond And Financing Obligation Principal Payments	(467,712)
Due In More Than One Year-Bond And Financing Obligation Principal Payments	<u>(4,355,000)</u>
Net Assets Of Governmental Activities	<u>\$ 19,292,534</u>

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

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MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Federal Grant Fund</u>
REVENUES				
Taxes	\$ 7,310,835	\$	\$	\$
In Lieu Tax Payments	1,207,472			
Excess Fees	224,996			
Licenses and Permits	130,027			
Intergovernmental	698,801	2,146,743	1,516,049	1,027,178
Charges for Services	30,739	7,394	22,200	
Miscellaneous	355,545	15,805	17,652	
Interest	22,962	6,923	1,311	
Total Revenues	<u>9,981,377</u>	<u>2,176,865</u>	<u>1,557,212</u>	<u>1,027,178</u>
EXPENDITURES				
General Government	3,303,882			
Protection to Persons and Property	626,309		1,351,519	
General Health and Sanitation	276,153			1,018,577
Social Services	161,263			
Recreation and Culture	803,868			
Roads	1,626,881	1,659,547		
Other Transportation Facilities	5,973			
Debt Service:				
Principal	9,502			
Interest	6,390			
Capital Projects	80,000			
Administration	2,820,219	481,050	581,154	
Total Expenditures	<u>9,720,440</u>	<u>2,140,597</u>	<u>1,932,673</u>	<u>1,018,577</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>260,937</u>	<u>36,268</u>	<u>(375,461)</u>	<u>8,601</u>
Other Financing Sources (Uses)				
Bond Proceeds				
Bond Premium				
Payment To Escrow Agent				
Transfers From Other Funds	18,790		500,000	
Transfers To Other Funds	(739,369)			(18,789)
Total Other Financing Sources (Uses)	<u>(720,579)</u>		<u>500,000</u>	<u>(18,789)</u>
Net Change in Fund Balances	(459,642)	36,268	124,539	(10,188)
Fund Balances - Beginning (Restated)	<u>1,989,203</u>	<u>247,505</u>	<u>40,389</u>	<u>16,715</u>
Fund Balances - Ending	<u>\$ 1,529,561</u>	<u>\$ 283,773</u>	<u>\$ 164,928</u>	<u>\$ 6,527</u>

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

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2012
(Continued)

Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 227,171	\$ 7,538,006
			1,207,472
			224,996
			130,027
488,655		152,065	6,029,491
			60,333
			389,002
18	43,263	1,783	76,260
<u>488,673</u>	<u>43,263</u>	<u>381,019</u>	<u>15,655,587</u>
			3,303,882
		368,579	2,346,407
			1,294,730
			161,263
			803,868
			3,286,428
			5,973
5,650,000			5,659,502
345,411			351,801
			80,000
86,861		136,627	4,105,911
<u>6,082,272</u>	<u></u>	<u>505,206</u>	<u>21,399,765</u>
<u>(5,593,599)</u>	<u>43,263</u>	<u>(124,187)</u>	<u>(5,744,178)</u>
4,815,000			4,815,000
53,246			53,246
(106,200)			(106,200)
814,171		233,021	1,565,982
	(699,803)	(108,021)	(1,565,982)
<u>5,576,217</u>	<u>(699,803)</u>	<u>125,000</u>	<u>4,762,046</u>
(17,382)	(656,540)	813	(982,132)
<u>18,520</u>	<u>903,594</u>	<u>167,459</u>	<u>3,383,385</u>
<u>\$ 1,138</u>	<u>\$ 247,054</u>	<u>\$ 168,272</u>	<u>\$ 2,401,253</u>

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

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**MARSHALL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2012

**MARSHALL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2012

Net Change In Fund Balances - Total Governmental Funds	\$	(982,132)
<p>Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement of Activities The Costs Of Those Assets Are Allocated Over Their Estimated Useful Lives, And Are Reported As Depreciation Expense</p>		
Capital Outlay		2,095,488
Depreciation Expense		(1,478,028)
Assets Disposed Of, Net Book Value		(44,513)
The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Principal Payments Are Expenses In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However Have No Effect On Net Assets.		(4,815,000)
Financing Obligation Principal Payments		9,502
Bond Principal Payments		5,650,000
		5,650,000
Change In Net Assets of Governmental Activities	\$	435,317

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

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MARSHALL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2012

MARSHALL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2012

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 162,262
Total Current Assets	162,262
 Net Assets	
Unrestricted	162,262
Total Net Assets	\$ 162,262

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

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MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

MARSHALL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 64,595
Total Operating Revenues	64,595
Operating Expenses	
Cost of Sales	22,179
Inmate Benefit	23,539
Total Operating Expenses	45,718
Operating Income	18,877
Nonoperating Revenues (Expenses)	
Interest Income	228
Total Nonoperating Revenues	228
Change In Net Assets	19,105
Total Net Assets - Beginning	143,157
Total Net Assets - Ending	\$ 162,262

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

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MARSHALL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

MARSHALL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

	<u>Business-Type Activity - Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Cash Receipts From Canteen Commissions	\$ 64,595
Cash Payments To Vendors	<u>(45,718)</u>
Net Cash Provided (Used) By Operating Activities	<u>18,877</u>
Cash Flows From Investing Activities	
Interest Earned	<u>228</u>
Net Cash Provided (Used) By Investing Activities	<u>228</u>
Net Increase (Decrease) In Cash and Cash Equivalents	19,105
Cash and Cash Equivalents - July 1	<u>143,157</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 162,262</u></u>
 Reconciliation Of Operating Income To Net Cash Provided (Used) By Operating	
Operating Income	<u>\$ 18,877</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 18,877</u></u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County prepares its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Marshall County include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the Fiscal Court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the County's primary government using the blending method.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit, Continued

Marshall County Public Properties Corporation

The Marshall County Public Properties Corporation cannot be sued in its own name without recourse to the Marshall County Fiscal Court, which appoints a voting majority consisting of Fiscal Court members and the County Attorney. The Fiscal Court is able to impose its will on the Corporation, as the Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project. The Fiscal Court has access to the Corporation's resources and is legally obligated to finance the debts of, or provide financial support to, the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within Marshall County's financial statements as the Public Properties Corporation Justice Center Debt Service Fund and the Public Properties Corporation Justice Center Capital Projects Fund.

Discretely Presented Component Units

The component unit column in the combined financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government.

Marshall County Refuse Disposal District

The Marshall County Fiscal Court appoints a voting majority of the Marshall County Refuse Disposal District governing board. The Fiscal Court is financially accountable and legally obligated for the debt of the refuse district. Financial information for the refuse district is presented discretely within Marshall County's financial statements.

Audited financial statements for the Marshall County Refuse District, a discretely presented component unit, may be requested by contacting the Marshall County Treasurer, 1101 Main Street, P.O. Box 114, Benton, Kentucky 42025.

C. 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 statements of Marshall County, Kentucky.

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

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and modified cash basis of accounting and report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

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.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting.

The primary government reports the following major governmental 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.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue 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 expenditures 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 revenue 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 expenditures separately from the General Fund.

Federal Grant Fund - The purpose of this fund is to account for federal grant receipts and disbursements.

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.

The primary government also has the following non-major funds: Emergency 911 Fund and Wireless 911 Fund which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Special Revenue Funds

The Road Fund, Jail Fund, Federal Grant Fund, Emergency 911 Fund, and Wireless 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Capital Projects Fund

The Public Properties Corporation Justice Center Capital Projects Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities and purchase of capital assets.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Debt Service Fund

The Public Properties Corporation Justice Center Debt Service Fund is presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Proprietary Funds

Proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise funds are charges to inmates for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

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.

E. 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 STATEMENTS
JUNE 30, 2012
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles, machinery and 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.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

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G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize 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 financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

Spendable components include the following:

- Restricted - amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed - amounts constrained for a specific purpose by the County using its highest level of decision making authority.
- Assigned - for all governmental funds, other than the general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated County committee or official given authority to assign amounts.
- Unassigned - for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the County issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the County has designated the County Treasurer to carry out the intent of the Fiscal Court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the Fiscal Court incurs no liability until performance has occurred on the part of the party with whom the Fiscal Court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. 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. Formal budgets are not adopted for the Public Properties Corporation Justice Center Debt Service Fund, the Public Properties Corporation Justice Center Capital Projects Fund or the Jail Canteen Fund.

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.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The State Local Finance Officer does not require the Public Properties Corporation Justice Center Debt Service Fund, the Public Properties Corporation Justice Center Capital Projects Fund or the Jail Canteen Fund to be budgeted because the Fiscal Court does not approve expenses from these funds.

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Marshall County Fiscal Court: Marshall County Hospital, Jonathan Creek Water District, Aurora Sewer District, Marshall County Library, North Marshall Water District, Draffenville Sewer District, and Marshall County Cemetery Board.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Marshall County Fiscal Court: Purchase Area Industrial Authority Incorporated, Marshall County-Calvert City Riverport Authority, and Industrial Development Authority.

K. Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Fiscal Court requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Therefore, actual results could differ from those estimates. The most significant estimate used is the estimated useful lives in determining depreciation expense. Estimated lives are based on a reasonable time that the asset might last. However, many assets are used for much longer periods.

Note 2. Deposits

The primary government and component unit 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 County's deposits may not be returned to it. 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, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 3. Interfund Transfers

	General Fund	Jail Fund	Public Properties Corporation Justice Center Debt Service Fund	Non-Major Governmental Funds	Total Transfers Out
General Fund	\$	\$ 500,000	\$ 114,368	\$ 125,000	\$ 739,368
Public Properties Corporation Justice Center Capital Projects Fund			699,803		699,803
Federal Grant Fund	18,790				18,790
Total Transfers In	<u>\$ 18,790</u>	<u>\$ 500,000</u>	<u>\$ 814,171</u>	<u>\$ 125,000</u>	<u>\$ 1,457,961</u>

Reasons For Transfers:

1. To move resources from the General Fund, for budgetary purposes, to the fund that will expend them;
2. To move resources from the Capital Projects Fund to the Debt Service Fund for debt service expenditures.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 2,160,113	\$ 14,000	\$	\$ 2,174,113
Total Capital Assets Not Being Depreciated	<u>2,160,113</u>	<u>14,000</u>		<u>2,174,113</u>
Capital Assets, Being Depreciated:				
Buildings	14,952,674	688,117		15,640,791
Vehicles and Equipment	6,018,000	433,099	(233,139)	6,217,960
Infrastructure	8,894,727	960,272		9,854,999
Total Capital Assets Being Depreciated	<u>29,865,401</u>	<u>2,081,488</u>	<u>(233,139)</u>	<u>31,713,750</u>
Less Accumulated Depreciation For:				
Buildings	(4,197,179)	(289,981)		(4,487,160)
Vehicles and Equipment	(3,599,847)	(388,264)	188,626	(3,799,485)
Infrastructure	(3,087,442)	(799,783)		(3,887,225)
Total Accumulated Depreciation	<u>(10,884,468)</u>	<u>(1,478,028)</u>	<u>188,626</u>	<u>(12,173,870)</u>
Total Capital Assets, Being Depreciated, Net	<u>18,980,933</u>	<u>603,460</u>	<u>(44,513)</u>	<u>19,539,880</u>
Governmental Activities Capital Assets, Net	<u>\$ 21,141,046</u>	<u>\$ 617,460</u>	<u>\$ (44,513)</u>	<u>\$ 21,713,993</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 229,024
Protection to Persons and Property	259,836
Social Services	2,721
Recreation and Culture	32,423
Roads, Including Depreciation of General Infrastructure Assets	<u>954,024</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,478,028</u>

Capital asset activity for the discretely presented component unit for the year ended June 30, 2012 was as follows:

	<u>Reporting Entity</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	
Capital Assets, Being Depreciated:				
Land and Land Improvements	\$ 1,000,541	\$	\$	\$ 1,000,541
Buildings	182,332	34,821		217,153
Vehicles and Equipment	1,276,383	55,188		1,331,571
Total Capital Assets Being Depreciated	<u>2,459,256</u>	<u>90,009</u>		<u>2,549,265</u>
Less Accumulated Depreciation For:				
Land and Land Improvements	(244,904)	(32,149)		(277,053)
Buildings	(52,759)	(3,864)		(56,623)
Vehicles and Equipment	(734,934)	(68,817)		(803,751)
Total Accumulated Depreciation	<u>(1,032,597)</u>	<u>(104,830)</u>		<u>(1,137,427)</u>
Capital Assets, Net	<u>\$ 1,426,659</u>	<u>\$ (14,821)</u>	<u>\$ 0</u>	<u>\$ 1,411,838</u>

Depreciation expense was charged to functions of the discretely presented component unit as follows:

Marshall County Refuse Disposal District	<u>\$ 104,830</u>
Total Depreciation Expense - Discretely Presented Component Unit	<u>\$ 104,830</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

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, 2012, was \$4,815,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 460,000	\$ 77,475
2014	455,000	86,250
2015	460,000	81,700
2016	460,000	77,100
2017	470,000	67,900
2018-2022	2,510,000	184,400
Totals	<u>\$ 4,815,000</u>	<u>\$ 574,825</u>

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

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

B. Marshall County Caring/Needline Building

On July 3, 2002, Marshall County Fiscal Court entered into a promissory note agreement with the 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 outstanding balance of the note as of June 30, 2012 was \$7,712.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 5. Long-term Debt (Continued)

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due in More Than One Year
Primary Government:						
<u>Governmental Activities:</u>						
Revenue Bonds	\$ 5,650,000	\$	\$ 5,650,000	\$	\$	\$
Revenue Bonds		4,815,000		4,815,000	460,000	4,355,000
Financing Obligations	17,214		9,502	7,712	7,712	
Governmental Activities Long-term Liabilities	<u>\$ 5,667,214</u>	<u>\$ 4,815,000</u>	<u>\$ 5,659,502</u>	<u>\$ 4,822,712</u>	<u>\$ 467,712</u>	<u>\$ 4,355,000</u>

Note 6. Related Party Transactions

A. Timber Bridge Company

The Marshall County Fiscal Court entered into a construction contract with Timber Bridge of Kentucky for the construction of a bridge. County Judge/Executive Mike Miller is employed as a salesman for Timber Bridge of Kentucky. Marshall County Fiscal Court paid Timber Bridge of Kentucky \$122,079 during fiscal year ended June 30, 2012.

B. Magic Valley BBQ

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 \$3,555 during fiscal year ended June 30, 2012.

Note 7. Employee Retirement System

The Fiscal Court and the Marshall County Refuse Disposal District, a discretely presented component unit, 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 18.96 percent.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 7. Employee Retirement System (Continued)

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percentage will go to the KRS insurance fund. The County's contribution rate for hazardous employees was 35.76 percent.

The contribution requirements and the amounts contributed to CERS were \$1,297,973, \$1,365,847, and \$1,494,200, respectively, for the years ended June 30, 2010, 2011, and 2012.

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

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

CERS also provides post retirement health care coverage as follows:

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

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

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

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 STATEMENTS
JUNE 30, 2012
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2012, 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 not to exceed cost of \$1,075,000. The project is in process and total combined cost incurred at June 30, 2012 was \$940,349. 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 to 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 and the City of Benton, City of 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. Prior Period Adjustments

Beginning net assets of governmental activities has been restated to include the net cost of prior year voided checks and prior period adjustment. The effect of this change is a net increase of \$2,367 in governmental activities.

The beginning fund balance of the General Fund in the fund financial statements was increased by \$1,080 to restate fund balance for prior year voided checks.

The beginning fund balance of the Jail Fund in the fund financial statements was increased by \$1,237 to restate fund balance for prior year voided checks.

The beginning fund balance of the PPC Capital Projects Fund in the fund financial statements was increased by \$50 to restate fund balance for prior year adjustment.

**MARSHALL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Supplementary Information**

June 30, 2012

MARSHALL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Supplementary Information

June 30, 2012

	Emergency 911 Fund	Wireless 911 Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 168,272	\$	\$ 168,272
Total Assets	<u>168,272</u>	<u>0</u>	<u>168,272</u>
FUND BALANCES			
Assigned To:			
Protection to Persons and Property	<u>168,272</u>	<u></u>	<u>168,272</u>
Total Fund Balances	<u>\$ 168,272</u>	<u>\$ 0</u>	<u>\$ 168,272</u>

The notes to the financial statements are an integral part of this statement.

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MARSHALL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Supplementary Information

For The Year Ended June 30, 2012

MARSHALL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Supplementary Information

For The Year Ended June 30, 2012

	Emergency 911 Fund	Wireless 911 Fund	Total Non-Major Governmental Funds
REVENUES			
Taxes	\$ 227,171	\$	\$ 227,171
Intergovernmental		152,065	152,065
Interest	1,783		1,783
Total Revenues	228,954	152,065	381,019
EXPENDITURES			
Protection to Persons and Property	261,601	106,978	368,579
Administration	118,273	18,354	136,627
Total Expenditures	379,874	125,332	505,206
Excess (Deficiency) of Revenues Over			
Expenditures before Other			
Financing Sources (Uses)	(150,920)	26,733	(124,187)
Other Financing Sources (Uses)			
Transfers From Other Funds	233,021		233,021
Transfers To Other Funds		(108,021)	(108,021)
Total Other Financing Sources (Uses)	233,021	(108,021)	125,000
Net Change in Fund Balances	82,101	(81,288)	813
Fund Balances - Beginning	86,171	81,288	167,459
Fund Balances - Ending	\$ 168,272	\$ 0	\$ 168,272

The notes to the financial statements are an integral part of this statement.

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MARSHALL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MARSHALL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2012

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Homeland Security</u>		
Passed Through Kentucky Division of Emergency Management		
Assistance to Fire Fighter Grant (CFDA # 97.044)	N/A	\$ 115,902
Hazard Mitigation Grant Program (CFDA # 97.039)	PON2 095 1100001569 1	43,218
Emergency Management Performance Grant (CFDA # 97.042)	PON2 095 1000000487 1	41,488
Passed Through Kentucky Office of Homeland Security		
Homeland Security Grant Program (CFDA # 97.067)	PO2 094 1000002603 1	<u>13,704</u>
Total U.S. Department of Homeland Security		214,312
<u>Delta Regional Authority</u>		
Passed Through Kentucky District of Purchase Area Development and Local Government		
Delta Area Economic Development (CFDA # 90.201)	KY 5461	182,536
<u>U.S. Department of Energy</u>		
Passed Through Kentucky Department for Local Government		
ARRA - Energy Efficiency and Conservation Block Grant Program (CFDA # 81.128)	EE10028	7,647
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through Kentucky Department for Local Government		
Community Development Block Grant (CFDA # 14.228)	N/A	<u>497,500</u> *
Total Expenditures of Federal Awards		<u>\$ 901,995</u>

* Tested as a major program.

See note to this schedule.

MARSHALL COUNTY
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2012

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal activity of Marshall County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

MARSHALL COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis

For The Year Ended June 30, 2012

MARSHALL COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis

For The Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,177,000	\$ 2,322,000	\$ 2,324,302	\$ 2,302
In Lieu Tax Payments	1,345,500	1,410,500	1,207,472	(203,028)
Excess Fees	190,000	190,000	224,996	34,996
Licenses and Permits	130,000	130,000	130,027	27
Intergovernmental Revenue	363,600	579,506	688,302	108,796
Charges for Services			30,739	30,739
Miscellaneous	249,000	249,000	344,162	95,162
Interest	17,000	17,000	10,002	(6,998)
Total Revenues	4,472,100	4,898,006	4,960,002	61,996
EXPENDITURES				
General Government	2,385,900	3,114,418	3,046,290	68,128
Protection to Persons and Property	522,900	706,727	626,309	80,418
General Health and Sanitation	141,220	187,900	176,153	11,747
Social Services	182,000	185,000	161,263	23,737
Recreation and Culture	88,900	193,639	161,767	31,872
Debt Service	166,500	166,500	119,761	46,739
Capital Projects	80,000	80,000	80,000	
Administration	2,679,680	2,655,700	2,606,497	49,203
Total Expenditures	6,247,100	7,289,884	6,978,040	311,844
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(1,775,000)	(2,391,878)	(2,018,038)	373,840
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	1,300,000	1,300,000	2,027,457	727,457
Transfers to Other Funds			(127,500)	(127,500)
Total Other Financing Sources (Uses)	1,300,000	1,300,000	1,899,957	599,957
Net Changes in Fund Balance	(475,000)	(1,091,878)	(118,081)	973,797
Fund Balance - Beginning (Restated)	600,000	600,000	234,281	(365,719)
Fund Balance - Ending	\$ 125,000	\$ (491,878)	\$ 116,200	\$ 608,078

MARSHALL COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2012
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,280,500	\$ 1,777,727	\$ 2,146,743	\$ 369,016
Charges for Services	5,500	5,500	7,394	1,894
Miscellaneous	3,500	3,500	15,805	12,305
Interest	10,000	10,000	6,923	(3,077)
Total Revenues	1,299,500	1,796,727	2,176,865	380,138
EXPENDITURES				
Roads	1,073,900	1,668,133	1,659,547	8,586
Administration	490,600	485,640	481,050	4,590
Total Expenditures	1,564,500	2,153,773	2,140,597	13,176
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(265,000)	(357,046)	36,268	393,314
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	100,000	100,000		(100,000)
Total Other Financing Sources (Uses)	100,000	100,000		(100,000)
Net Changes in Fund Balance	(165,000)	(257,046)	36,268	293,314
Fund Balance - Beginning	165,000	165,000	247,505	82,505
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (92,046)</u>	<u>\$ 283,773</u>	<u>\$ 375,819</u>

MARSHALL COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2012
(Continued)

	JAIL FUND			
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 1,109,000	\$ 1,189,000	\$ 1,516,049	\$ 327,049
Charges for Services	35,000	35,000	22,200	(12,800)
Miscellaneous	18,500	18,500	17,652	(848)
Interest	1,000	1,000	1,311	311
Total Revenues	<u>1,163,500</u>	<u>1,243,500</u>	<u>1,557,212</u>	<u>313,712</u>
EXPENDITURES				
Protection to Persons and Property	1,394,900	1,394,900	1,351,519	43,381
Administration	618,600	698,600	581,154	117,446
Total Expenditures	<u>2,013,500</u>	<u>2,093,500</u>	<u>1,932,673</u>	<u>160,827</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(850,000)</u>	<u>(850,000)</u>	<u>(375,461)</u>	<u>474,539</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	800,000	800,000	500,000	(300,000)
Total Other Financing Sources (Uses)	<u>800,000</u>	<u>800,000</u>	<u>500,000</u>	<u>(300,000)</u>
Net Changes in Fund Balance	(50,000)	(50,000)	124,539	174,539
Fund Balance - Beginning (Restated)	50,000	50,000	40,389	(9,611)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 164,928</u>	<u>\$ 164,928</u>

MARSHALL COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2012
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 900,000	\$ 997,696	\$ 1,027,178	\$ 29,482
Total Revenues	900,000	997,696	1,027,178	29,482
EXPENDITURES				
General Health and Sanitation	900,000	1,047,696	1,018,577	29,119
Total Expenditures	900,000	1,047,696	1,018,577	29,119
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)		(50,000)	8,601	58,601
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(18,789)	(18,789)
Total Other Financing Sources (Uses)			(18,789)	(18,789)
Net Changes in Fund Balances		(50,000)	(10,188)	39,812
Fund Balances - Beginning			16,715	16,715
Fund Balances - Ending	\$ 0	\$ (50,000)	\$ 6,527	\$ 56,527

MARSHALL COUNTY
NOTES TO OTHER INFORMATION

June 30, 2012

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.

Reconciliation to the General Fund

Total Revenues-Budgetary Basis	\$ 4,960,002
Revenues from Occupational Tax Fund, Occupational Tax Administrator Fund, Veterans Van Fund, and Cherokee Fund reported within General Fund as a result of the adoption of GASB 54	5,010,876
Debt payments made by other entity in accordance with lease agreement	<u>10,499</u>
Total Revenues-Modified Cash Basis	<u>\$ 9,981,377</u>
Total Expenditures-Budgetary Basis	\$ 6,978,040
Expenditures from Occupational Tax Fund, Occupational Tax Administrator Fund, and Veterans Van Fund reported within General Fund as a result of the adoption of GASB 54	2,846,269
Transfer to Debt PPC from General Fund instead of expensed	(114,369)
Debt payments made by other entity in accordance with lease agreement	<u>10,499</u>
Total Expenditures-Modified Cash Basis	<u>\$ 9,720,439</u>
Total Other Financing Uses-Budgetary Basis	\$ 1,899,957
Transfer to Debt PPC from General Fund	(114,369)
Transfer to Jail from Occupational Tax Fund	(500,000)
Elimination of transfers among special revenue funds consolidated within the General Fund	<u>(2,006,168)</u>
Total Other Financing Uses-Modified Cash Basis	<u>\$ (720,580)</u>

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

TICHENOR & ASSOCIATES, LLP
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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 Financial
Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 19, 2012. Our report included a reference to other auditors. Marshall County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit 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. Other auditors audited the financial statements of the Marshall County Refuse Disposal District, as described in our report on Marshall County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting on compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the Marshall County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Marshall County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marshall County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marshall County Fiscal Court's internal control over financial reporting.

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 statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2012-01 through 2012-03 that we consider to be significant deficiencies in internal control over financial reporting.

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

Internal Control Over Financial Reporting (Continued)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Marshall County Fiscal Court's financial statements are 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management of Marshall County Fiscal Court in the exit conference on December 19, 2012.

The Marshall County Judge/Executive's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Marshall County Fiscal Court, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
December 19, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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The Honorable Mike Miller, Marshall County Judge/Executive
Members of the Marshall County Fiscal Court

Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Independent Auditor's Report

Compliance

We have audited the compliance of Marshall County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Marshall County's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Marshall County Fiscal Court. Our responsibility is to express an opinion on Marshall County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marshall County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marshall County's compliance with those requirements.

In our opinion, Marshall County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Marshall County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Marshall County's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Marshall County's internal control over compliance.

Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
December 19, 2012

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

For The Year Ended June 30, 2012

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

Fiscal Year Ended June 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County.
2. Three significant deficiencies disclosed during the audit of the financial statements are reported in the Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards. These deficiencies are not considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of Marshall County, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No deficiencies relating to the audit of the major federal awards program are reported in the Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the audit of the major federal awards program for Marshall County expresses an unqualified opinion on all major federal programs.
6. There are no findings relative to the major federal awards programs for Marshall County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant/States Program (CFDA #14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Marshall County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES

2012-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the County's assets and ensure accurate financial reporting.

Condition: The Treasurer posts to the receipts ledger, prepares bank deposits, prepares bank reconciliations, and prepares financial reports. In addition, the Occupational Tax Administrator posts occupational tax collections to the occupational tax subsidiary ledger and prepares bank deposits.

Cause: The Fiscal Court's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2012
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued)

2012-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts (Continued)

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the cash collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend the County continue to review their policies and procedures to identify ways in which segregation of duties could be improved. Specifically the following procedures could be implemented to strengthen the internal control process:

- An independent person should be responsible for opening the mail and listing all receipts. The employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. Occupational tax returns should be stamped with the date received. This list should be agreed to the Treasurer's receipts ledger and the bank deposit slip. The person should initial the listing to document their review in comparison to the receipts ledger and bank deposit slip.
- An independent person, such as the Judge/Executive, should open bank statements and review them for unusual items, such as debit memos and overdraft charges. The person should initial the bank statement to document their review.
- An independent person, such as the Judge/Executive, should review the Treasurer's bank reconciliations for accuracy and timeliness. The person should initial the bank reconciliation to document their review.

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

2012-02 The Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping

Criteria: 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.

Condition: During our testing of payroll, we noted 7 instances of time sheets that were not signed by the employee and/or supervisor. We also identified two instances where time cards were not maintained by salaried employees in the Road Department.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2012
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued)

2012-02 The Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping (Continued)

Cause: It appears that the lack of signatures on timesheets was caused by administrative oversights.

Effect or Potential Effect: The County is not in compliance with KRS 337.320.

Recommendation: 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 employee and employee's supervisor have signed the timesheet prior to processing payroll. All employees, with exception of elected officials, should be required to maintain a time sheet.

County Judge/Executive's Response: *Employees and Supervisors have been reminded of the importance of signing all payroll time records.*

2012-03 The Fiscal Court Has A Deficit of \$150,650 In The Payroll Revolving Account

Criteria: The Department for Local Government's Budget Manual states that the Treasurer should only countersign checks when sufficient fund balance and adequate cash is in the bank to cover the check.

Condition: During our analysis of the year-end payroll revolving account reconciliation, we noted that there was a deficit balance of \$150,650 after taking into consideration payroll liabilities.

Cause: The Fiscal Court pays the Sheriff's payroll directly from the payroll revolving account even if there are insufficient funds in the account to cover the Sheriff's payroll costs. The Sheriff submits payroll bi-weekly to the Treasurer to process but does not always provide adequate funds to cover the cost of the payroll expenses. Historically, the Sheriff submits partial reimbursements throughout the year to cover prior payroll expenses, which are deposited directly to the payroll revolving account.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2012
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued)

2012-03 The Fiscal Court Has A Deficit of \$150,650 In The Payroll Revolving Account (Continued)

Effect or Potential Effect: The Fiscal Court is utilizing cash from other funds of the County in order to cover current period cash outflows for the Sheriff's payroll. During fiscal year 2011, it was noted that \$600,000 was transferred from the Occupational Tax Administrator Fund to the payroll revolving account in order to prevent a deficit fund balance in the account. Of the \$600,000 transferred to the payroll account, only \$300,000 was transferred back to the Occupational Tax Administrator Fund from the payroll revolving account. During the current fiscal year all the money transferred to the payroll account was paid back but the \$300,000 from FY 2011. Further, the Sheriff's payroll expenses and the related reimbursements are not being reflected within the Fiscal Court's financial statements.

Recommendation: We recommend that the Fiscal Court require the Sheriff to provide the County with adequate funds prior to processing the payroll of the Sheriff's Office. Amounts transferred from other funds to the payroll revolving account should be transferred back prior to the end of the fiscal year. Alternatively, we recommend that the County incorporate the Sheriff's payroll expenses within the budget of the General Fund or require the Sheriff to "fee pool" whereby the Fiscal Court would pay all of the Sheriff's operating expenses and the Sheriff would remit excess fees monthly rather than at year-end.

County Judge/Executive's Response: We will advise the Fiscal Court of these recommendations and ask them to take it into careful consideration.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.

