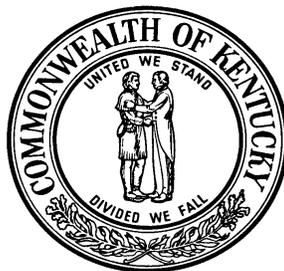


**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**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 Dean Dorton Allen Ford, PLLC, 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, 2010, which collectively comprise the County's basic financial statements.

We engaged Dean Dorton Allen Ford, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Dean Dorton Allen Ford, PLLC 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, 2010

Dean Dorton Allen Ford, PLLC has completed the audit of the Marshall County Fiscal Court for fiscal year ended June 30, 2010. 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 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 programs: Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA #97.036) and Congressionally Mandated Projects (CFDA #66.202).

Financial Condition:

The Fiscal Court had net assets of \$18,814,171 as of June 30, 2010. Of this amount, the Fiscal Court had unrestricted net assets of \$4,340,791 in its governmental activities, with total net assets of \$18,660,436. In its business-type activities, total cash and cash equivalents were \$153,735 with total net assets of \$153,735. The Fiscal Court's discretely presented component unit had net assets of \$1,965,056 as of June 30, 2010. The discretely presented component unit had cash and cash equivalents of \$593,192. The Fiscal Court had total debt principal as of June 30, 2010 of \$6,006,004 with \$334,687 due within the next year.

Report Comments:

- 2010-01 The County Should Properly Account For Encumbrances And Maintain A Purchase Order Journal
- 2010-02 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2010-03 The Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping
- 2010-04 The Fiscal Court Has A Deficit of \$106,098 In The Payroll Revolving Account
- 2010-05 The Jail Commissary Failed To Submit Sales Tax To The Kentucky Department Of Revenue As Required By KRS 139.200
- 2010-06 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices
- 2010-07 The Fiscal Court Does Not Have A Policy Or Procedure To Minimize The Time Elapsing Between The Transfer Of Federal Funds And Disbursement

Deposits:

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

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DEAN || DORTON || ALLEN || FORD_{LLC}

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 components unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2010, 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 and the report of other auditors provide 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 audit and the report of the 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, 2010, 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.

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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

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the basic financial statements. The Budgetary Comparison Information on pages 39 through 45 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marshall County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements on pages 47 through 49, 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 9, 2011 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:

- 2010-01 The County Should Properly Account For Encumbrances And Maintain A Purchase Order Journal
- 2010-02 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2010-03 The Fiscal Court Should Strengthen Controls Over Employee Timesheets And Recordkeeping
- 2010-04 The Fiscal Court Has A Deficit of \$106,098 In The Payroll Revolving Account
- 2010-05 The Jail Commissary Failed To Submit Sales Tax To The Kentucky Department Of Revenue As Required By KRS 139.200
- 2010-06 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices
- 2010-07 The Fiscal Court Does Not Have A Policy Or Procedure To Minimize The Time Elapsing Between The Transfer Of Federal Funds And Disbursement

Respectfully submitted,

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
 June 9, 2011, except for Note 11
 as to which the date is February 20, 2012

MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Mike Miller	County Judge/Executive
Jerry English	Magistrate
Terry Anderson	Magistrate
Bob Gold	Magistrate

Other Elected Officials:

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

Appointed Personnel:

Tim York	County Treasurer
Angie Murphy	Occupational Tax Collector
Emily West	Finance Officer
Gary Atkins	Road Supervisor
Jeff Daniel	911 Administrator
Laurie Ford	Jail Administrative Assistant/Bookkeeper

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MARSHALL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

MARSHALL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Marshall County Refuse Disposal District
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 4,340,791	\$ 153,735	\$ 4,494,526	\$ 593,192
Total Current Assets	<u>4,340,791</u>	<u>153,735</u>	<u>4,494,526</u>	<u>593,192</u>
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	2,075,045		2,075,045	722,563
Buildings	10,792,512		10,792,512	133,040
Vehicles and Equipment	2,531,526		2,531,526	533,860
Infrastructure	4,926,566		4,926,566	
Total Noncurrent Assets	<u>20,325,649</u>		<u>20,325,649</u>	<u>1,389,463</u>
Total Assets	<u>24,666,440</u>	<u>153,735</u>	<u>24,820,175</u>	<u>1,982,655</u>
LIABILITIES				
Current Liabilities:				
Bonds Payable	325,000		325,000	
Financing Obligations	9,687		9,687	
Payroll Liabilities				17,599
Total Current Liabilities	<u>334,687</u>		<u>334,687</u>	<u>17,599</u>
Noncurrent Liabilities:				
Bonds Payable	5,650,000		5,650,000	
Financing Obligations	21,317		21,317	
Total Noncurrent Liabilities	<u>5,671,317</u>		<u>5,671,317</u>	
Total Liabilities	<u>6,006,004</u>		<u>6,006,004</u>	<u>17,599</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	14,319,645		14,319,645	1,389,463
Unrestricted	4,340,791	153,735	4,494,526	575,593
Total Net Assets	<u>\$ 18,660,436</u>	<u>\$ 153,735</u>	<u>\$ 18,814,171</u>	<u>\$ 1,965,056</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, 2010

MARSHALL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

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	\$ 6,600,301	\$ 85,374	\$ 829,786	\$
Protection to Persons and Property	2,447,992	1,598,358	372,698	894,624
General Health and Sanitation	1,926,032		23,488	2,126,501
Social Services	268,856			
Recreation and Culture	703,819			
Roads	2,715,032	263,822	194,305	1,165,431
Other Transportation Facilities	5,965			
Interest on Long-Term Debt	339,438			
Capital Projects	80,000			
Total Governmental Activities	15,087,435	1,947,554	1,420,277	4,186,556
Business-type Activities:				
Jail Canteen	43,403	48,287		
Total Business-type Activities	43,403	48,287		
Total Primary Government	\$ 15,130,838	\$ 1,995,841	\$ 1,420,277	\$ 4,186,556
Component Units:				
Marshall County Refuse Disposal District	1,989,840			
Total Component Units	\$ 1,989,840	\$ 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
Reimbursements
Miscellaneous Revenues
Transfers
Interest Earned

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

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, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Marshall County Refuse Disposal District
\$ (5,685,141)	\$	\$ (5,685,141)	\$
417,688		417,688	
223,957		223,957	
(268,856)		(268,856)	
(703,819)		(703,819)	
(1,091,474)		(1,091,474)	
(5,965)		(5,965)	
(339,438)		(339,438)	
(80,000)		(80,000)	
(7,533,048)		(7,533,048)	
	4,884	4,884	
	4,884	4,884	
(7,533,048)	4,884	(7,528,164)	
			(1,989,840)
			(1,989,840)
1,443,546		1,443,546	
178,708		178,708	
253,724		253,724	
4,473,029		4,473,029	
673,888		673,888	1,602,336
1,424,257		1,424,257	
204,405		204,405	
406,744		406,744	50,798
17,480	(17,480)		14,348
82,056	440	82,496	394,903
9,157,837	(17,040)	9,140,797	3,186
1,624,789	(12,156)	1,612,633	2,065,571
17,035,647	165,891	17,201,538	75,731
\$ 18,660,436	\$ 153,735	\$ 18,814,171	1,889,325
			\$ 1,965,056

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, 2010

MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Federal Grant Fund</u>	<u>Occupational Tax Fund</u>
ASSETS					
Cash and Cash Equivalents	\$ 615,781	\$ 243,143	\$ 140,574	\$ 4,771	\$ 10,309
Total Assets	<u>615,781</u>	<u>243,143</u>	<u>140,574</u>	<u>4,771</u>	<u>10,309</u>
FUND BALANCES					
Unreserved:					
General Fund	615,781				
Special Revenue Funds		243,143	140,574	4,771	10,309
Capital Projects Fund					
Debt Service Fund					
Total Fund Balances	<u>\$ 615,781</u>	<u>\$ 243,143</u>	<u>\$ 140,574</u>	<u>\$ 4,771</u>	<u>\$ 10,309</u>

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

MARSHALL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

Occupational Tax Administrator Fund	Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$ 2,146,441	\$ 18,521	\$ 1,013,686	\$ 147,565	\$ 4,340,791
<u>2,146,441</u>	<u>18,521</u>	<u>1,013,686</u>	<u>147,565</u>	<u>4,340,791</u>
				615,781
2,146,441			147,565	2,692,803
		1,013,686		1,013,686
	18,521			18,521
<u>\$ 2,146,441</u>	<u>\$ 18,521</u>	<u>\$ 1,013,686</u>	<u>\$ 147,565</u>	<u>\$ 4,340,791</u>

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

Total Fund Balances	\$ 4,340,791
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.	29,921,194
Accumulated Depreciation	(9,595,545)
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	(334,687)
Due In More Than One Year-Bond And Financing Obligation Principal Payments	<u>(5,671,317)</u>
Net Assets Of Governmental Activities	<u>\$ 18,660,436</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, 2010

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

For The Year Ended June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Federal Grant Fund</u>
REVENUES				
Taxes	\$ 2,293,141	\$	\$	\$
In Lieu Tax Payments	1,424,257			
Excess Fees	204,405			
Licenses and Permits	85,374			
Intergovernmental	1,373,083	1,359,736	1,659,453	2,126,501
Charges for Services		263,822	42,735	
Miscellaneous	384,282	335	14,828	
Interest	4,457	2,683	406	1,306
Total Revenues	<u>5,768,999</u>	<u>1,626,576</u>	<u>1,717,422</u>	<u>2,127,807</u>
EXPENDITURES				
General Government	2,590,603			
Protection to Persons and Property	821,580		1,361,756	
General Health and Sanitation	120,622			1,222,627
Social Services	263,448			
Recreation and Culture	69,237			
Roads		1,438,327		
Other Transportation Facilities				
Debt Service	12,345			1,803,875
Capital Projects	80,000			
Administration	2,310,456	477,471	550,397	
Total Expenditures	<u>6,268,291</u>	<u>1,915,798</u>	<u>1,912,153</u>	<u>3,026,502</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(499,292)</u>	<u>(289,222)</u>	<u>(194,731)</u>	<u>(898,695)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	1,000,000	389,906	317,480	
Transfers To Other Funds	(542,699)			(33,671)
Total Other Financing Sources (Uses)	<u>457,301</u>	<u>389,906</u>	<u>317,480</u>	<u>(33,671)</u>
Net Change in Fund Balances	(41,991)	100,684	122,749	(932,366)
Fund Balances - Beginning	<u>657,772</u>	<u>142,459</u>	<u>17,825</u>	<u>937,137</u>
Fund Balances - Ending	<u>\$ 615,781</u>	<u>\$ 243,143</u>	<u>\$ 140,574</u>	<u>\$ 4,771</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, 2010
(Continued)

Occupational Tax Fund	Occupational Tax Administrator Fund	Public Properties Corporation Justice Center Debt Service Fund	Public Properties Corporation Justice Center Capital Projects Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 4,473,029	\$	\$	\$ 256,724	\$ 7,022,894
					1,424,257
					204,405
					85,374
		482,840		160,843	7,162,456
					306,557
				22,300	421,745
637	10,006	4	61,814	743	82,056
<u>637</u>	<u>4,483,035</u>	<u>482,844</u>	<u>61,814</u>	<u>440,610</u>	<u>16,709,744</u>
37,159	249,712				2,877,474
9,036				393,553	2,585,925
582,783					1,926,032
					263,448
615,874					685,111
3,000,071					4,438,398
				5,965	5,965
		629,437			2,445,657
					80,000
190,537		2,000	25,447	114,411	3,670,719
<u>4,435,460</u>	<u>249,712</u>	<u>631,437</u>	<u>25,447</u>	<u>513,929</u>	<u>18,978,729</u>
(4,434,823)	4,233,323	(148,593)	36,367	(73,319)	(2,268,985)
4,033,671		148,598		52,793	5,942,448
	(5,200,000)		(148,598)		(5,924,968)
<u>4,033,671</u>	<u>(5,200,000)</u>	<u>148,598</u>	<u>(148,598)</u>	<u>52,793</u>	<u>17,480</u>
(401,152)	(966,677)	5	(112,231)	(20,526)	(2,251,505)
<u>411,461</u>	<u>3,113,118</u>	<u>18,516</u>	<u>1,125,917</u>	<u>168,091</u>	<u>6,592,296</u>
\$ 10,309	\$ 2,146,441	\$ 18,521	\$ 1,013,686	\$ 147,565	\$ 4,340,791

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, 2010

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, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ (2,251,505)
<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	3,128,237
Depreciation Expense	(1,262,782)
Assets disposed of, net book value	(80,380)
Receivables Principal Repaid	(15,000)
<p>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.</p>	
Financing Obligation Payments	1,806,219
Bond Payments	300,000
Change in Net Assets of Governmental Activities	\$ 1,624,789

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, 2010

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

June 30, 2010

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 153,735
Total Current Assets	153,735
 Net Assets	
Unrestricted	153,735
Total Net Assets	\$ 153,735

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, 2010

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

For The Year Ended June 30, 2010

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 48,287
Total Operating Revenues	48,287
Operating Expenses	
Cost of Sales	20,257
Inmate Benefit	23,146
Total Operating Expenses	43,403
Operating Income	4,884
Nonoperating Revenues (Expenses)	
Interest Income	440
Transfer Out	(17,480)
Total Nonoperating Revenues	(17,040)
Change In Net Assets	(12,156)
Total Net Assets - Beginning	165,891
Total Net Assets - Ending	\$ 153,735

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, 2010

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

For The Year Ended June 30, 2010

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Canteen Commissions	\$ 48,287
Payments to Vendors	(43,403)
Net Cash Provided By Operating Activities	4,884
Cash Flows From Non Capital Financing Activities	
Transfer Out To Jail Fund	(17,480)
Net Cash Provided By Investing Activities	(17,480)
Cash Flows From Investing Activities	
Interest Earned	440
Net Cash Provided By Investing Activities	440
Net Decrease in Cash and Cash Equivalents	(12,156)
Cash and Cash Equivalents - July 1	165,891
Cash and Cash Equivalents - June 30	\$ 153,735
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 4,884
Net Cash Provided By Operating Activities	\$ 4,884

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, 2010

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.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances), if applicable.

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 organizations 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, 2010
(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 Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Corporation is blended with Marshall County's financial statements.

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, 2010
(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 lien and sale the 3rd Saturday in April following the delinquency date.

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, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Governmental Funds

All governmental fund 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.

Occupational Tax Fund - The primary purpose of this fund is to account for the disbursement of occupational tax funds. The primary source of revenue for this fund is transfers from the Occupational Tax Administrator Fund.

Occupational Tax Administrator Fund - This fund is used to account for occupational tax receipts. Occupational tax revenues are recorded in this fund and then transferred to the Occupational Tax Fund.

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, Wireless 911 Fund, and Veterans Van 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.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Special Revenue Funds

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

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 customers 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:

Enterprise 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, 2010
(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.

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

F. 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.

G. 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 reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent Fiscal Court's intended use of the resources and should reflect actual plans approved by the Fiscal Court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (continued)

“Reserved for Encumbrances” 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. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

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.

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.

Public Properties Corporation Justice Center Debt Service, Public Properties Corporation Justice Center Capital Projects Fund, and the Jail Canteen Fund are not budgeted. The Department for Local Government does not require the Fiscal Court to report or budget 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 is considered a joint venture of the Marshall County Fiscal Court: Purchase Area Industrial Authority Incorporated; Marshall County-Calvert City Riverport Authority; and Industrial Development Authority.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

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.

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, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Receivables

A. Elva/New Harmony/Oak Level Fire District

The County loaned \$30,000 to the Elva/New Harmony/Oak Level Fire District on July 21, 1999, for the purpose of renovating the Fire Department. Terms of the agreement stipulate a 12-year repayment schedule, interest free. The Fire District is in substantial compliance with the terms of the agreement. As of June 30, 2010, the principal balance had been paid in full.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2010 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	\$ 2,062,232	\$ 12,813	\$	\$ 2,075,045
Total Capital Assets Not Being Depreciated	<u>2,062,232</u>	<u>12,813</u>		<u>2,075,045</u>
Capital Assets, Being Depreciated:				
Buildings	14,484,858	242,893		14,727,751
Vehicles and Equipment	5,479,071	780,657	(424,564)	5,835,164
Infrastructure	5,191,360	2,091,874		7,283,234
Total Capital Assets Being Depreciated	<u>25,155,289</u>	<u>3,115,424</u>	<u>(424,564)</u>	<u>27,846,149</u>
Less Accumulated Depreciation For:				
Buildings	(3,684,389)	(250,850)		(3,935,239)
Vehicles and Equipment	(3,254,949)	(392,873)	344,184	(3,303,638)
Infrastructure	(1,737,609)	(619,059)		(2,356,668)
Total Accumulated Depreciation	<u>(8,676,947)</u>	<u>(1,262,782)</u>	<u>344,184</u>	<u>(9,595,545)</u>
Total Capital Assets, Being Depreciated, Net	<u>16,478,342</u>	<u>1,852,642</u>	<u>(80,380)</u>	<u>18,250,604</u>
Governmental Activities Capital Assets, Net	<u>\$ 18,540,574</u>	<u>\$ 1,865,455</u>	<u>\$ (80,380)</u>	<u>\$ 20,325,649</u>

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

<u>Governmental Activities:</u>	
General Government	\$ 220,537
Protection to Persons and Property	223,656
Social Services	5,408
Recreation and Culture	30,934
Roads, Including Depreciation of General Infrastructure Assets	<u>782,247</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,262,782</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 4. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit for the year ended June 30, 2010 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital Assets, Being Depreciated:				
Land and Land Improvements	805,287	132,133		937,420
Buildings	178,029	4,303		182,332
Vehicles and Equipment	<u>1,122,045</u>	<u>91,515</u>	<u>(22,500)</u>	<u>1,191,060</u>
Total Capital Assets Being Depreciated	2,105,361	227,951	(22,500)	2,310,812
Less Accumulated Depreciation For:				
Land and Land Improvements	(191,322)	(23,537)		(214,859)
Buildings	(45,862)	(3,424)		(49,286)
Vehicles and Equipment	<u>(604,522)</u>	<u>(75,182)</u>	<u>22,500</u>	<u>(657,204)</u>
Total Accumulated Depreciation	<u>(841,706)</u>	<u>(102,143)</u>	<u>22,500</u>	<u>(921,349)</u>
Capital Assets, Net	<u>\$ 1,263,655</u>	<u>\$ 125,808</u>	<u>\$ 0</u>	<u>\$ 1,389,463</u>

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

Marshall County Refuse Disposal District	<u>\$ 102,143</u>
Total Depreciation Expense - Discretely Presented Component Unit	<u>\$ 102,143</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2000

On October 1, 2000, the Marshall County Public Properties Corporation (Corporation) issued First Mortgage Revenue Bonds, Series 2000, in the amount of \$8,005,000 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 2003, and interest, which is fixed at 5.25%, is payable semiannually on March 1 and September 1, beginning March 1, 2001. The outstanding balance as of June 30, 2010, was \$5,975,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 325,000	\$ 313,688
2012	340,000	296,625
2013	360,000	278,775
2014	380,000	259,875
2015	400,000	239,925
2016-2020	2,385,000	858,111
2021-2023	1,785,000	190,574
Totals	<u>\$ 5,975,000</u>	<u>\$ 2,437,573</u>

On October 1, 2000, the Corporation entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that AOC agrees to pay 74% of the debt service requirements with the remaining 26% 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, 2010 was \$31,004. The Marshall County Caring/Needline has paid additional amounts toward principal, and adjusted future principal and interest requirements are:

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

B. Marshall County Caring/Needline Building (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 9,687	\$ 756
2012	9,057	1,386
2013	12,260	967
Totals	<u>\$ 31,004</u>	<u>\$ 3,109</u>

C. Marshall County Waterline Extension #1

On November 25, 2008, the Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the sum of \$500,000 at an effective interest rate of 3.958%. The proceeds from the financing obligation were used to fund the Water Vision 20/20 project. The principal balance was paid in full during the year ended June 30, 2010.

D. Marshall County Waterline Extension #2

On March 16, 2009, the Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the sum of \$1,300,000 at an effective interest rate of 4.038%. The proceeds from the financing obligation were used to fund the Water Vision 20/20 project. The principal balance was paid in full during the year ended June 30, 2010.

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 6,275,000	\$	\$ 300,000	\$ 5,975,000	\$ 325,000
Financing Obligations	1,837,223		1,806,219	31,004	9,687
Governmental Activities					
Long-term Liabilities	<u>\$ 8,112,223</u>	<u>\$ 0</u>	<u>\$ 2,106,219</u>	<u>\$ 6,006,004</u>	<u>\$ 334,687</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

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 paid Timber Bridge of Kentucky \$125,893 during fiscal year ended June 30, 2010.

B. Magic Valley BBQ

The Marshall County Fiscal Court entered into catering transactions Magic Valley BBQ. County Attorney Jeff Edwards owns an interest in Magic Valley BBQ. Marshall County Fiscal paid Magic Valley BBQ \$1,050 during fiscal year ended June 30, 2010.

Note 7. Employee Retirement System

The Fiscal Court and the Marshall County Refuse Disposal District, a discretely presented component unit, 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 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The contribution requirements and the amounts contributed to CERS were \$1,275,697, \$1,099,360, and \$1,297,973, respectively for the years ended June 30, 2008, 2009, and 2010.

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

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

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, 2010
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2010, 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 it's authorized agents the right to enter upon this land for the purpose of performing such activities

Note 10. Contingencies

There are lawsuits and claims pending against the Fiscal Court which may arise during the normal course of business. The Fiscal Court is a defendant in lawsuits and claims arising from, among other things, wrongful termination. Although the aggregate amount asserted in such lawsuits and claims is potentially significant, Fiscal Court management believes that the ultimate outcome of these matters, after insurance proceeds, will not have a significant effect on the financial position or changes in financial position of the funds of the Fiscal Court.

Note 11. Subsequent Event

In November 2011, the Marshall County Public Properties Corporation (a blended component unit) authorized the Fiscal Court to issue General Obligation Refunding Bonds in a principal amount not to exceed \$6,000,000 for the purpose of refunding the outstanding balance of the First Mortgage Revenue Bonds (Justice Center Project), Series 2000. The Fiscal Court has received approval from the State Local Debt officer to issue the bonds.

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2010

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,230,000	\$ 2,230,000	\$ 2,293,141	\$ 63,141
In Lieu Tax Payments	1,225,000	1,225,000	1,424,257	199,257
Excess Fees	265,000	265,000	204,405	(60,595)
Licenses and Permits	95,000	95,000	85,374	(9,626)
Intergovernmental Revenue	272,400	1,072,400	1,373,083	300,683
Charges for Services	243,000	243,000		(243,000)
Miscellaneous	165,000	165,000	384,282	219,282
Interest	10,000	10,000	4,457	(5,543)
Total Revenues	4,505,400	5,305,400	5,768,999	463,599
EXPENDITURES				
General Government	2,116,200	2,733,502	2,590,603	142,899
Protection to Persons and Property	467,700	854,634	821,580	33,054
General Health and Sanitation	140,100	153,374	120,622	32,752
Social Services	370,200	476,334	263,448	212,886
Recreation and Culture	21,000	70,212	69,237	975
Debt Service	153,000	50,345	12,345	38,000
Capital Projects	75,000	80,000	80,000	
Administration	2,837,200	2,432,025	2,310,456	121,569
Total Expenditures	6,180,400	6,850,426	6,268,291	582,135
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(1,675,000)	(1,545,026)	(499,292)	1,045,734
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	1,000,000	1,000,000	1,000,000	
Transfers to Other Funds			(542,699)	(542,699)
Total Other Financing Sources (Uses)	1,000,000	1,000,000	457,301	(542,699)
Net Changes in Fund Balance	(675,000)	(545,026)	(41,991)	503,035
Fund Balance - Beginning	675,000	675,000	657,772	(17,228)
Fund Balance - Ending	\$ 0	\$ 129,974	\$ 615,781	\$ 485,807

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,151,000	\$ 1,151,000	\$ 1,359,736	\$ 208,736
Charges for Services	11,000	11,000	263,822	252,822
Miscellaneous	11,000	11,000	335	(10,665)
Interest	4,400	4,400	2,683	(1,717)
Total Revenues	<u>1,177,400</u>	<u>1,177,400</u>	<u>1,626,576</u>	<u>449,176</u>
EXPENDITURES				
Roads	1,149,600	1,459,533	1,438,327	21,206
Administration	487,800	489,800	477,471	12,329
Total Expenditures	<u>1,637,400</u>	<u>1,949,333</u>	<u>1,915,798</u>	<u>33,535</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(460,000)</u>	<u>(771,933)</u>	<u>(289,222)</u>	<u>482,711</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	<u>460,000</u>	<u>460,000</u>	<u>389,906</u>	<u>(70,094)</u>
Total Other Financing Sources (Uses)	<u>460,000</u>	<u>460,000</u>	<u>389,906</u>	<u>(70,094)</u>
Net Changes in Fund Balance		(311,933)	100,684	412,617
Fund Balance - Beginning			<u>142,459</u>	<u>142,459</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (311,933)</u>	<u>\$ 243,143</u>	<u>\$ 555,076</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,523,000	\$ 1,523,000	\$ 1,659,453	\$ 136,453
Charges for Services	32,000	32,000	42,735	10,735
Miscellaneous	36,000	36,000	14,828	(21,172)
Interest	4,000	4,000	406	(3,594)
Total Revenues	1,595,000	1,595,000	1,717,422	122,422
EXPENDITURES				
Protection to Persons and Property	1,496,800	1,509,767	1,361,756	148,011
Administration	598,200	598,200	550,397	47,803
Total Expenditures	2,095,000	2,107,967	1,912,153	195,814
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(500,000)	(512,967)	(194,731)	318,236
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	300,000	300,000	317,480	17,480
Total Other Financing Sources (Uses)	300,000	300,000	317,480	17,480
Net Changes in Fund Balance	(200,000)	(212,967)	122,749	335,716
Fund Balance - Beginning	200,000	200,000	17,825	(182,175)
Fund Balance - Ending	\$ 0	\$ (12,967)	\$ 140,574	\$ 153,541

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,531,500	\$ 2,531,500	\$ 2,126,501	\$ (404,999)
Interest			1,306	1,306
Total Revenues	<u>2,531,500</u>	<u>2,531,500</u>	<u>2,127,807</u>	<u>(403,693)</u>
EXPENDITURES				
General Health and Sanitation	1,231,500	1,350,676	1,222,627	128,049
Debt Service	1,300,000	1,264,985	1,803,875	(538,890)
Total Expenditures	<u>2,531,500</u>	<u>2,615,661</u>	<u>3,026,502</u>	<u>(410,841)</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)		<u>(84,161)</u>	<u>(898,695)</u>	<u>(814,534)</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			<u>(33,671)</u>	<u>(33,671)</u>
Total Other Financing Sources (Uses)			<u>(33,671)</u>	<u>(33,671)</u>
Net Changes in Fund Balances		(84,161)	(932,366)	(848,205)
Fund Balances - Beginning			<u>937,137</u>	<u>937,137</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (84,161)</u>	<u>\$ 4,771</u>	<u>\$ 88,932</u>

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 5,000	\$ 5,000	\$ 637	\$ (4,363)
Total Revenues	5,000	5,000	637	(4,363)
EXPENDITURES				
General Government	51,200	52,350	37,159	15,191
Protection to Persons and Property		9,036	9,036	
General Health and Sanitation	800,000	582,783	582,783	
Recreation and Culture	623,500	661,021	615,874	45,147
Roads	2,040,900	3,053,510	3,000,071	53,439
Administration	629,400	192,346	190,537	1,809
Total Expenditures	4,145,000	4,551,046	4,435,460	115,586
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(4,140,000)	(4,546,046)	(4,434,823)	111,223
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	3,640,000	3,640,000	4,033,671	393,671
Total Other Financing Sources (Uses)	3,640,000	3,640,000	4,033,671	393,671
Net Changes in Fund Balances	(500,000)	(906,046)	(401,152)	504,894
Fund Balances - Beginning	500,000	500,000	411,461	(88,539)
Fund Balances - Ending	\$ 0	\$ (406,046)	\$ 10,309	\$ 416,355

MARSHALL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	OCCUPATIONAL TAX ADMINISTRATOR FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,960,000	\$ 3,960,000	\$ 4,473,029	\$ 513,029
Interest	40,000	40,000	10,006	(29,994)
Total Revenues	4,000,000	4,000,000	4,483,035	483,035
EXPENDITURES				
General Government	200,000	249,712	249,712	
Administration	800,000			
Total Expenditures	1,000,000	249,712	249,712	
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	3,000,000	3,750,288	4,233,323	483,035
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	(5,400,000)	(5,400,000)	(5,200,000)	200,000
Total Other Financing Sources (Uses)	(5,400,000)	(5,400,000)	(5,200,000)	200,000
Net Changes in Fund Balances	(2,400,000)	(1,649,712)	(966,677)	683,035
Fund Balances - Beginning	2,400,000	2,400,000	3,113,118	713,118
Fund Balances - Ending	\$ 0	\$ 750,288	\$ 2,146,441	\$ 1,396,153

MARSHALL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Expenditures Over Appropriations

The Federal Grant Fund expenditures exceeded its budget by \$410,841.

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

June 30, 2010

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

June 30, 2010

	Emergency 911 Fund	Wireless 911 Fund	Veteran's Van Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 103,438	\$ 42,856	\$ 1,271	\$ 147,565
Total Assets	<u>103,438</u>	<u>42,856</u>	<u>1,271</u>	<u>147,565</u>
FUND BALANCES				
Unreserved: Special Revenue Funds	<u>103,438</u>	<u>42,856</u>	<u>1,271</u>	<u>147,565</u>
Total Fund Balances	<u>\$ 103,438</u>	<u>\$ 42,856</u>	<u>\$ 1,271</u>	<u>\$ 147,565</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
Other Supplementary Information

For The Year Ended June 30, 2010

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

For The Year Ended June 30, 2010

	Emergency 911 Fund	Wireless 911 Fund	Veteran's Van Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$ 256,724	\$	\$	\$ 256,724
Intergovernmental		160,843		160,843
Miscellaneous	20,000		2,300	22,300
Interest	727		16	743
Total Revenues	277,451	160,843	2,316	440,610
EXPENDITURES				
Protection to Persons and Property	255,947	137,606		393,553
Other Transportation Facilities and Services			5,965	5,965
Administration	92,471	21,940		114,411
Total Expenditures	348,418	159,546	5,965	513,929
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(70,967)	1,297	(3,649)	(73,319)
Other Financing Sources (Uses)				
Transfers From Other Funds	52,793			52,793
Total Other Financing Sources (Uses)	52,793			52,793
Net Change in Fund Balances	(18,174)	1,297	(3,649)	(20,526)
Fund Balances - Beginning	121,612	41,559	4,920	168,091
Fund Balances - Ending	<u>\$ 103,438</u>	<u>\$ 42,856</u>	<u>\$ 1,271</u>	<u>\$ 147,565</u>

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, 2010

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		
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA # 97.036)	FEMA-1912-DR-KY	\$ 154,133 *
Emergency Management Performance Grant (CFDA # 97.042)	PO2 095 1000000487	38,018
Passed Through Kentucky Office of Homeland Security		
Homeland Security Grant Program - Area 1 Emergency Medical Strike Team (CFDA # 97.067)	PO2 094 0800021004	81,000
Homeland Security Grant Program - Marshall County Rescue Squad Boat Project (CFDA # 97.067)	PO2 094 0900023586	<u>60,000</u>
Total U.S. Department of Homeland Security		333,151
<u>U.S. Department of Environmental Protection Agency</u>		
Passed Through Kentucky Environmental Protection Agency		
Congressionally Mandated Projects - Jonathan Creek Water Project (CFDA # 66.202)	XP-96479107E10028	240,600 *
Special Projects 2003 Appropriations Act - SD#2 Expansion (CFDA # 66.202)	XP-95404408	<u>48,567</u>
		289,167
Total U.S. Department of Environmental Protection Agency		
Total Expenditures of Federal Awards		<u>\$ 622,318</u>

* - Tested as major programs.

See note to this schedule.

MARSHALL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2010

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.

**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**

DEAN || DORTON || ALLEN || FORD_{LLC}

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, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 9, 2011. 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

In planning and performing our audit, we considered 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 Marshall County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 2010-01 through 2010-04 and 2010-06 that we consider to be significant deficiencies in internal control over financial reporting. 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.

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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
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2010-01, 2010-03, and 2010-05.

We noted certain other matters that we reported to management of Marshall County Fiscal Court in the exit conference on May 20, 2011.

The Marshall County Judge/Executive's responses and the Marshall County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. 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 these specified parties.

Respectfully submitted,

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
June 9, 2011

**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**

DEAN || DORTON || ALLEN || FORD_{PLC}

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, 2010. 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, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-07.

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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

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 Fiscal Court'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 Fiscal Court's internal control over compliance.

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

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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-07. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Marshall County Judge/Executive's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the response and accordingly, we express no opinion on it.

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 these specified parties.

Respectfully submitted,

Dean Dorton Allen Ford, PLLC

Louisville, Kentucky
February 20, 2012

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

For The Year Ended June 30, 2010

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County.
2. Five 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. Three instances of noncompliance material to the financial statements of Marshall County were disclosed during the audit.
4. One significant deficiency relating to the audit of the major federal awards program is 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. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were: Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA #97.036) and Congressionally Mandated Projects (CFDA #66.202)
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

2010-01 The County Should Properly Account For Encumbrances And Maintain A Purchase Order Journal

Criteria: The Department for Local Government requires the County to disclose encumbrances on the face of the Fourth Quarter Financial Report. The "Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual" states, "Enter the total dollar amount of unpaid purchase orders from the purchase order journal."

Condition: Encumbrances have not been disclosed on the face of the Fourth Quarter Financial Report, and have, therefore, not been disclosed on the governmental fund balance sheet in the financial statements as required by accounting policies general accepted in the United States of America.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2010
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

2010-01 The County Should Properly Account For Encumbrances And Maintain A Purchase Order Journal (Continued)

Cause: Each department within the County has the ability to initiate a purchase; however, an updated appropriation ledger or system of communication between the department head and the Finance Officer has not been maintained in order to determine the total amount of outstanding and unpaid purchase requests at any given period.

Effect or Potential Effect: The County is not in compliance with Department for Local Government guidelines.

Recommendation: We recommend that the County maintain a purchase order journal or other system, from which the total of outstanding purchases at each period end should be disclosed as encumbrances on the Quarterly Financial Report.

County Judge/Executive's Response: We are considering all options to ensure encumbrances are tracked and disclosed. A system will be implemented as soon as possible.

2010-02 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: During our audit, we noted 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 entity'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.

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.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2010
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

2010-02 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts (Continued)

- 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. In the future, a copy of bank statements will be received by the County Judge/Executive and will be submitted with the Treasurer's Report for Fiscal Court review.

2010-03 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. Additionally, we noted that the Finance Officer and the Treasurer do not receive information pertaining to the departmental vacation and sick time records.

Cause: It appears that the lack of signatures on timesheets were caused by administrative oversights. With regards to the lack of communication of sick and vacation time records, the Fiscal Court does not have a policy to mandate each department to provide sick and vacation time records to the Finance Officer and/or the Treasurer.

Effect or Potential Effect: The County is not in compliance with KRS 337.320. Further, the Fiscal Court is unable to monitor compliance with vacation and sick time policies due to the lack of communication from departments.

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. In addition, we recommend that each department submit sick and vacation time records to the Finance Officer and/or Treasurer on a periodic basis.

County Judge/Executive's Response: Employees and Supervisors have been reminded of the importance of signing all payroll time records. In addition, we will begin to require departments to disclose sick and vacation time records to the Treasurer's Office on a periodic basis in the near future.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2010
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

2010-04 The Fiscal Court Has A Deficit of \$106,098 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 fund balance of \$106,098 after taking into consideration payroll liabilities.

Cause: The County pays the Sheriff’s payroll directly from the payroll revolving account when 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.

Effect or Potential Effect: The County 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 2010, it was noted that \$100,000 was transferred from the Occupational Tax Administrator Fund to the payroll revolving account in order to prevent a deficit fund balance in the account (Note – these funds were transferred back to the Occupational Tax Administrator Fund from the payroll revolving account during the fiscal year). Further, the Sheriff’s payroll expenses and the related reimbursements are not being reflected within the County’s financial statements.

Recommendation: We recommend that the County require the Sheriff to provide the County with adequate funds prior to processing the payroll of the Sheriff’s Office. 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 County would pay all of the Sheriff’s operating expenses and the Sheriff would remit excess fees monthly rather than at year-end. Any of these recommendations would alleviate the deficit in the payroll revolving account as well as ensure the County is in compliance with applicable statutory requirements.

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

2010-05 The Jail Commissary Failed To Submit Sales Tax To The Kentucky Department Of Revenue As Required By KRS 139.200

Criteria: According to KRS 139.200 “A tax is hereby imposed upon all retailers at the rate of six percent (6%) of the gross receipts derived from: (1) Retail sales of: (a) Tangible personal property, regardless of the method of delivery, made within the Commonwealth” which includes “(d) Prepaid calling service”.

Condition: During testing of Jail Commissary expenditures, it was noted that the Jail Commissary had not collected or remitted sales tax to the Kentucky Department of Revenue for the sale of telephone cards. Subsequent to year-end, we noted that the Jail Commissary was paying sales tax to the vendor on the purchase of the telephone cards; however, has not been collecting and remitting sales tax on the subsequent sale of the telephone cards to inmates.

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2010
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

2010-05 The Jail Commissary Failed To Submit Sales Tax To The Kentucky Department Of Revenue As Required By KRS 139.200 (Continued)

Cause: The non-compliance appears to be an administrative oversight and misunderstanding of the statutory requirement.

Effect or Potential Effect: The County and Jail Commissary are not in compliance with Kentucky statutory requirements.

Recommendation: We recommend that the Judge/Executive and the Jailer consult with the County Attorney with regards to the collection of sales tax from the sale of telephone cards as prescribed by KRS 139.550.

County Jailer's Response: *Due to miscommunication with our phone vendor and no help from the Internal Revenue, we were unable to get this taken care. With assistance from the Treasurer and the County Attorney we will do our best and try again.*

2010-06 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices

Criteria: The County should have a policy and procedure to ensure that cash receipts are matched to amounts billed to ensure that all amounts billed are collected in full.

Condition: The Jailer is responsible for creating and sending bills to relevant third parties. The Treasurer receives the payments and posts the receipts to the cash receipts ledger. Amounts billed by the Jailer are not compared to cash receipts to ensure that all amounts billed are collected.

Cause: There is no policy or procedure to ensure coordination between the Treasurer and the Jailer.

Effect or Potential Effect: Amounts billed could remain uncollected, resulting in lost revenue for the County.

Recommendation: We recommend that a procedure is implemented to ensure that cash receipts are matched to amounts billed and that either the Treasurer or the Jailer be made responsible for ensuring that all amounts billed are collected.

County Judge/Executive's Response: *The Treasurer and the Jailer will work out a procedure to ensure all funds are being collected in a timely manner.*

County Jailer's Response: *We already reconcile. But will send a copy of the bill to the Treasurer.*

MARSHALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2010
(Continued)

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

2010-07 The Fiscal Court Does Not Have A Policy Or Procedure To Minimize The Time Elapsing Between The Transfer Of Federal Funds And Disbursement

Federal Program: CFDA #66.202 – Congressionally Mandated Projects
Federal Agency: U.S. Department of Environmental Protection Agency
Compliance Area: Cash Management
Amount of Questioned Costs: \$0

Criteria: As a recipient of federal funds, the Fiscal Court should follow procedures to minimize the time between the receipt of funds from a grantor and disbursement of funds for program purposes.

Condition: During testing of federal expenditures of major programs and review of federal reimbursement requests, we identified three out of six instances where the time period between the receipts of federal funds and disbursement of funds for related expenses exceeded five days.

Cause: The County was not aware of the requirement to minimize the time period between the receipt of funds from a granting agency and related disbursement of the funds. In addition, the Fiscal Court does not have a policy and procedure to monitor the requirements of cash management for federal awards.

Effect or Potential Effect: The County is not in compliance with applicable laws, regulations and the provisions of contracts and grant agreements.

Recommendation: We recommend that the Fiscal Court establish procedures to minimize the time between the transfer of federal funds and the disbursement of funds for program purposes in the future.

County Judge/Executive's Response: *Since this occurrence, we have put practices in place to avoid this.*

