

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

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT OF THE
MORGAN COUNTY FISCAL COURT

June 30, 2014

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

We have issued an unmodified opinion, based on our audit and the audit reports of other auditors, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Morgan County, Kentucky.

Financial Condition:

The Morgan County Fiscal Court had total receipts of \$6,681,225 and disbursements of \$23,494,881 in fiscal year 2014. This resulted in a total ending fund balance of \$11,943,442.

Report Comments:

- 2014-001 The General Fund And Jail Fund Have Deficit Balances Totaling \$27,329
- 2014-002 Transfer Station Disbursements Should Not Be Paid From The Road Fund
- 2014-003 The Morgan County Fiscal Court Did Not Comply With Regulations For Local Government Economic Assistance Coal-Impact Funds
- 2014-004 Public Properties Corporation Disbursements Were Not Approved By The Project Development Board
- 2014-005 The Morgan County Fiscal Court Did Not Properly Withhold Employees' Health Insurance Premiums
- 2014-006 The Morgan County Fiscal Court Did Not Pay Invoices Within 30 Working Days
- 2014-007 The Morgan County Fiscal Court Did Not Approve A Salary Schedule
- 2014-008 Timesheets Were Not Properly Maintained
- 2014-009 The Morgan County Fiscal Court Does Not Have Adequate Controls Over Bank Reconciliations

Deposits:

The fiscal court's deposits as of August 31, 2013, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$513,914

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

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MIKE HARMON
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To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Stanley Franklin, Morgan County Judge/Executive
Honorable Tim Conley, Former Morgan County Judge/Executive
Members of the Morgan County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Morgan County Fiscal Court, for the year ended June 30, 2014, and the related notes to the financial statement which collectively comprise the Morgan County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We did not audit the financial statements of the Morgan County Real Properties I Corporation and the Morgan County Real Properties II Corporation. Those financial statements were audited by other auditors whose audit reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Morgan County Real Properties I Corporation and Morgan County Real Properties II Corporation, is based solely on the audit reports 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 statement is free from material misstatement.



To the People of Kentucky

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Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

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

As described in more fully in Note 1, the financial statement is prepared by the Morgan County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Morgan County Fiscal Court as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, based on our audit and the audit reports of the other auditors, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Morgan County Fiscal Court as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
 Honorable Stanley Franklin, Morgan County Judge/Executive
 Honorable Tim Conley, Former Morgan County Judge/Executive
 Members of the Morgan County Fiscal Court

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Morgan County Fiscal Court. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. The budgetary comparison schedules and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2016 on our consideration of the Morgan County Fiscal Court internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

- 2014-001 The General Fund And Jail Fund Have Deficit Balances Totaling \$27,329
- 2014-002 Transfer Station Disbursements Should Not Be Paid From The Road Fund
- 2014-003 The Morgan County Fiscal Court Did Not Comply With Regulations For Local Government Economic Assistance Coal-Impact Funds
- 2014-004 Public Properties Corporation Disbursements Were Not Approved By The Project Development Board
- 2014-005 The Morgan County Fiscal Court Did Not Properly Withhold Employees' Health Insurance Premiums
- 2014-006 The Morgan County Fiscal Court Did Not Pay Invoices Within 30 Working Days
- 2014-007 The Morgan County Fiscal Court Did Not Approve A Salary Schedule
- 2014-008 Timesheets Were Not Properly Maintained
- 2014-009 The Morgan County Fiscal Court Does Not Have Adequate Controls Over Bank Reconciliations

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

April 8, 2016

MORGAN COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Tim Conley	Former County Judge/Executive
Stanley Franklin	County Judge/Executive
Jon Brown	Magistrate
Denzil Potter	Magistrate
Frankie Spencer	Magistrate
Anthony Lykins	Magistrate
Stanley Riggsby	Magistrate

Other Elected Officials:

D. Joleen Frederick	County Attorney
Jimmy D. Easterling	Jailer
Randy Williams	County Clerk
Donna Pelfrey	Circuit Court Clerk
Mickey Whitt	Sheriff
Darby Franklin	Property Valuation Administrator
Raymond Vancleave	Coroner

Appointed Personnel:

Jody Franklin	Former County Treasurer
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**MORGAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2014

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

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,428,626	\$	\$
In Lieu Tax Payments	36,488	43,103	
Excess Fees	111,452		
Licenses and Permits	1,883		
Intergovernmental	322,543	2,271,661	88,279
Charges for Services	7,948		46,290
Miscellaneous	368,911	130,200	43
Interest	5,400	2,204	17
Total Receipts	<u>2,283,251</u>	<u>2,447,168</u>	<u>134,629</u>
DISBURSEMENTS			
General Government	1,237,167	723	
Protection to Persons and Property	96,786		456,104
General Health and Sanitation	168,841		
Social Services	3,500		
Recreation and Culture	4,014		
Roads		852,203	
Debt Service	489,948	345,359	
Capital Projects	10,237	571,970	
Administration	402,142	318,915	40,620
Total Disbursements	<u>2,412,635</u>	<u>2,089,170</u>	<u>496,724</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(129,384)</u>	<u>357,998</u>	<u>(362,095)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds		150,835	
Transfers From Other Funds	513,141	443,324	373,946
Transfers To Other Funds	(693,783)	(513,141)	
Total Other Adjustments to Cash (Uses)	<u>(180,642)</u>	<u>81,018</u>	<u>373,946</u>
Net Change in Fund Balance	(310,026)	439,016	11,851
Fund Balance - Beginning (Restated)	434,039	11,503	1,972
Fund Balance - Ending	<u>\$ 124,013</u>	<u>\$ 450,519</u>	<u>\$ 13,823</u>
Composition of Fund Balance			
Bank Balance	\$ 142,009	\$ 753,109	\$ 13,823
Plus: Deposits In Transit	5,663		
Less: Outstanding Checks	(23,659)	(302,590)	
Fund Balance - Ending	<u>\$ 124,013</u>	<u>\$ 450,519</u>	<u>\$ 13,823</u>

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

MORGAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Budgeted Funds			Unbudgeted Funds		
Local Government Economic Assistance Fund	Forest Fire Fund	Special Projects Fund	Rebuild Morgan County Corporation Fund	Public Properties Corporation Fund	Morgan County Real Properties I Corporation Fund
\$	\$	\$	\$	\$	\$
162,505		220,457		1,193,323	
		8,500	218,916	7,097	
		348	67	444	4,520
<u>162,505</u>		<u>229,305</u>	<u>218,983</u>	<u>1,200,864</u>	<u>4,520</u>
					900,000
	3,783	29,950			
		47,748			
		18,653			
		19,370		1,193,323	4,252
		150,873		6,920,422	5,458,698
			87		29,450
	<u>3,783</u>	<u>266,594</u>	<u>87</u>	<u>8,113,745</u>	<u>6,392,400</u>
<u>162,505</u>	<u>(3,783)</u>	<u>(37,289)</u>	<u>218,896</u>	<u>(6,912,881)</u>	<u>(6,387,880)</u>
	3,783				
(127,270)					
<u>(127,270)</u>	<u>3,783</u>				
35,235		(37,289)	218,896	(6,912,881)	(6,387,880)
		50,159	191,298	7,546,583	11,121,026
<u>\$ 35,235</u>	<u>\$ 0</u>	<u>\$ 12,870</u>	<u>\$ 410,194</u>	<u>\$ 633,702</u>	<u>\$ 4,733,146</u>
\$ 35,235	\$	\$ 13,545	\$ 410,194	\$ 633,702	\$ 4,733,146
		(675)			
<u>\$ 35,235</u>	<u>\$ 0</u>	<u>\$ 12,870</u>	<u>\$ 410,194</u>	<u>\$ 633,702</u>	<u>\$ 4,733,146</u>

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

MORGAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	<u>Unbudgeted Funds</u>	
	Morgan County Real Properties II Corporation Fund	Total Funds
	<u> </u>	<u> </u>
RECEIPTS		
Taxes	\$	\$ 1,428,626
In Lieu Tax Payments		79,591
Excess Fees		111,452
Licenses and Permits		1,883
Intergovernmental		4,258,768
Charges for Services		54,238
Miscellaneous		733,667
Interest		13,000
Total Receipts		<u>6,681,225</u>
DISBURSEMENTS		
General Government		2,137,890
Protection to Persons and Property		586,623
General Health and Sanitation		216,589
Social Services		22,153
Recreation and Culture		4,014
Roads		852,203
Debt Service		2,052,252
Capital Projects	3,708,799	16,820,999
Administration	10,944	802,158
Total Disbursements	<u>3,719,743</u>	<u>23,494,881</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,719,743)</u>	<u>(16,813,656)</u>
Other Adjustments to Cash (Uses)		
Financing Obligation Proceeds		150,835
Transfers From Other Funds		1,334,194
Transfers To Other Funds		(1,334,194)
Total Other Adjustments to Cash (Uses)		<u>150,835</u>
Net Change in Fund Balance	(3,719,743)	(16,662,821)
Fund Balance - Beginning (Restated)	9,249,683	28,606,263
Fund Balance - Ending	<u>\$ 5,529,940</u>	<u>\$ 11,943,442</u>
Composition of Fund Balance		
Bank Balance	\$ 5,529,940	\$ 12,264,703
Plus: Deposits In Transit		5,663
Less: Outstanding Checks		(326,924)
Fund Balance - Ending	<u>\$ 5,529,940</u>	<u>\$ 11,943,442</u>

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

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TO THE FINANCIAL STATEMENT**

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MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Forest Fire Fund - The primary purpose of this fund is to account for taxes collected on fire acres and remittance to the state.

Special Projects Fund - The primary purpose of this fund is to account for various state and federal grant receipts and disbursements related to various projects.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Rebuild Morgan County Corporation Fund - This fund issued debt and received insurance proceeds from tornado damage and grants which were then used as the county's portion to pay the costs of the acquisition, construction, installation and equipping of a community center, parking garage, extension office, wellness and recovery center, and the renovation of the old Morgan County courthouse.

Public Properties Corporation Fund - This fund accounts for the activities of the Public Properties Corporation (PPC), which issued the debt to build the judicial center. The PPC entered into a contract, lease, and option with the county and Administrative Office of the Courts (AOC) in which the AOC wishes to use and sublease all or a portion of certain facilities owned by the county. The Department for Local Government does not require the fiscal court to report or budget this fund.

Morgan County Real Properties Corporation I Fund - This fund was created to be in compliance with the New Markets Tax Credit requirements to obtain funding for the costs of the acquisition, construction, installation and equipping of a wellness center and the renovation of the old Morgan County courthouse.

Morgan County Real Properties Corporation II Fund - This fund was created to be in compliance with the New Markets Tax Credit requirements to obtain funding for the costs of the acquisition, construction, installation and equipping of a community center, parking garage, and extension office.

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

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

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

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

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

The State Local Finance Officer does not require the Rebuild Morgan County Fund, Public Properties Corporation Fund, Morgan County Real Properties Corporation I Fund and Morgan County Real Properties Corporation II Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from these funds annually.

E. Morgan County Elected Officials

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

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

F. Deposits and Investments

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

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

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2013, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$513,914

Note 3. Transfers

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

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 513,141	\$	\$ 513,141
Road Fund	425,000		18,324	443,324
Jail Fund	265,000		108,946	373,946
Forestry Fund	3,783			3,783
Total Transfers Out	<u>\$ 693,783</u>	<u>\$ 513,141</u>	<u>\$ 127,270</u>	<u>\$ 1,334,194</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

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

Note 4. Receivables

The Morgan County Fiscal Court entered into financing obligations on behalf of the Morgan County Ambulance Service for the purpose of providing funds for the financing and purchase of ambulances and equipment. The Morgan County Ambulance Service has agreed to pay all debt service requirements on the obligations. As of June 30, 2014, the ambulance service was eight payments behind and owed the fiscal court \$49,120 for fiscal year 2014 debt payments. Future amounts due to Morgan County Fiscal Court are:

Fiscal Year Ended June 30	Due From Ambulance Service
2015	\$ 88,692
2016	28,409
2017	16,277
	\$ 133,378

Note 5. Short-Term Debt

A. Revenue Bond Anticipation Notes, Series 2012

On July 20, 2012, the Morgan County Fiscal Court issued Revenue Bond Anticipation Notes, Series 2012, in the amount of \$1,500,000 with Commercial Bank. This was used as a line of credit to provide interim funds to pay for expenses relating to the tornado disaster projects until the county was reimbursed by FEMA. Interest payments were due each month at 3.62% with the principal due on June 15, 2013. On August 8, 2013, the Morgan County Fiscal Court issued Revenue Bond Anticipation Notes, Series 2013, in the amount of \$551,725 with Commercial Bank to refinance the Revenue Bond Anticipation Notes, Series 2012. As of June 30, 2014 the balance was \$0.

B. Revenue Bond Anticipation Notes, Series 2013

On August 8, 2013, the Morgan County Fiscal Court issued Revenue Bond Anticipation Notes, Series 2013, in the amount of \$551,725 with Commercial Bank to refinance the Revenue Bond Anticipation Notes, Series 2012, which was used to provide interim funds for expenses relating to the tornado disaster projects. Interest payments were due each month at 3.62% with the principal due on June 15, 2014. On July 31, 2014, the Morgan County Fiscal Court issued the General Obligation Bond Anticipation Note, Series 2014, in the amount of \$551,725 with Commercial Bank to refinance the Revenue Bond Anticipation Notes, Series 2013. As of June 30, 2014, the principal balance on these bonds was \$551,725.

C. General Obligation Bond Anticipation Note, Series 2014

On June 12, 2014, the Morgan County Fiscal Court issued a General Obligation Bond Anticipation Note, Series 2014, in the amount of \$2,627,489 with Commercial Bank to refinance the General Obligation Bond Anticipation Note, Series 2012. The county entered into the Series 2012 note in anticipation of the issuance of the county's General Obligation Bonds, Series 2013, for the purpose of paying the costs of the acquisition, construction, installation and equipping a community center, parking garage, extension office, wellness and recovery center, and the renovation of the old Morgan County courthouse. Interest payments are due each month at 3.63% with the principal due on June 1, 2015. As of June 30, 2014, the principal balance on this note was \$2,627,489.

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

Note 5. Short-Term Debt (Continued)

D. Changes In Short-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bond Anticipation Notes	\$ 551,725	\$ 551,725	\$ 551,725	\$ 551,725	\$ 551,725
General Obligation Bond Anticipation Note		2,627,489		2,627,489	2,627,489
Total Short-term Debt	<u>\$ 551,725</u>	<u>\$ 3,179,214</u>	<u>\$ 551,725</u>	<u>\$ 3,179,214</u>	<u>\$ 3,179,214</u>

Note 6. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2010 - Judicial Center

In June 2010, the Public Properties Corporation issued \$15,230,000 in First Mortgage Revenue Bonds, Series 2010. The proceeds from these revenue bonds were used to plan, design, and construct the Morgan County Judicial Center. These bonds are scheduled to mature in 2030 and carry an interest rate of 1.0% to 4.0%. Annual principal payments are required on June 1 each year. Semiannual interest payments are required on December 1 and June 1 of each year.

The Morgan County Public Properties Corporation is acting as an agent for the Administrative Office of the Courts in order to plan, design, construct, manage and maintain the judicial center. The Morgan County Public Properties Corporation expects rentals for use of the judicial center to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Morgan County Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds. The Administrative Office of the Courts, with the execution of the lease, has expressed its intention to continue to pay the full allowance payment in successive biennial budget period until June 30, 2030. However, the lease does not obligate the Administrative Office of the Courts to do so.

As of June 30, 2014, the principal balance on these bonds was \$12,790,000. Debt service requirements for the remaining years are:

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

Note 6. Long-term Debt (Continued)

A. First Mortgage Revenue Bonds, Series 2010 - Judicial Center (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 630,000	\$ 444,305
2016	645,000	431,705
2017	660,000	416,225
2018	680,000	398,405
2019	695,000	378,685
2020-2024	3,840,000	1,539,365
2025-2029	4,605,000	772,300
2030	<u>1,035,000</u>	<u>41,400</u>
Totals	<u>\$ 12,790,000</u>	<u>\$ 4,422,390</u>

B. First Mortgage Revenue Bonds, Series 2013 - Judicial Center

In April 2013, the Public Properties Corporation issued \$1,635,000 in First Mortgage Revenue Bonds, Series 2013. The proceeds from these revenue bonds were to be used for the completion of the Morgan County Judicial Center. These bonds are scheduled to mature in 2030 and carry an interest rate of 1.0% to 3.25%. Annual principal payments are required on June 1 each year. Semiannual interest payments are required on December 1 and June 1 of each year.

The Morgan County Public Properties Corporation is acting as an agent for the Administrative Office of the Courts in order to plan, design, construct, manage and maintain the judicial center. The Morgan County Public Properties Corporation expects rentals for use of the judicial center to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Morgan County Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds. The Administrative Office of the Courts, with the execution of the lease, has expressed its intention to continue to pay the full allowance payment in successive biennial budget period until June 1, 2030. However, the lease does not obligate the Administrative Office of the Courts to do so.

As of June 30, 2014, the principal balance on these bonds was \$1,445,000. Debt service requirements for the remaining years are:

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

Note 6. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2013 - Judicial Center (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 80,000	\$ 34,988
2016	80,000	34,187
2017	80,000	33,188
2018	80,000	32,187
2019	80,000	30,988
2020-2024	435,000	129,887
2025-2029	500,000	66,138
2030	110,000	3,575
Totals	<u>\$ 1,445,000</u>	<u>\$ 365,138</u>

C. General Obligation Bond Anticipation Note, Series 2012

On December 27, 2012, the Morgan County Fiscal Court entered into a General Obligation Bond Anticipation Note, Series 2012, in the amount of \$2,627,489 with Commercial Bank. The county entered into this note in anticipation of the issuance of the county's General Obligation Bonds, Series 2013, for the purpose of paying the costs of the acquisition, construction, installation and equipping a community center, parking garage, extension office, wellness and recovery center, and the renovation of the old Morgan County courthouse. Interest payments are due on June 1 and December 1 at 3.63% until maturity on June 1, 2014. On June 12, 2014, the Morgan County Fiscal Court issued a General Obligation Bond Anticipation Note, Series 2014, in the amount of \$2,627,489 with Commercial Bank to refinance the General Obligation Bond Anticipation Note, Series 2012 (see Note 5.C.).

D. General Obligation Bond, Series 2012

On December 28, 2012, the Morgan County Fiscal Court entered into a General Obligation Bond, Series 2012, in the amount of \$1,600,000 with the Kentucky Association of Counties Finance Corporation. This bond was issued for the purpose of a community center, parking garage, extension district office, wellness and recovery center, and the renovation of the old Morgan County courthouse and paying the cost of issuance of the bond. The bond requires monthly principal and interest payments with interest payments between 4.0 and 4.5% plus fees to be paid in full on December 20, 2037. As of June 30, 2014, the principal balance on this bond was \$1,540,000. Debt service requirements for the remaining years are:

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

Note 6. Long-term Debt (Continued)

D. General Obligation Bond, Series 2012

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 40,000	\$ 73,935
2016	42,500	72,485
2017	45,000	70,954
2018	45,000	69,341
2019	47,500	67,729
2020-2024	270,000	311,664
2025-2029	325,000	255,995
2030-2034	397,500	175,813
2035-2038	327,500	74,937
Totals	<u>\$ 1,540,000</u>	<u>\$ 1,172,853</u>

E. Kentucky Association of Counties Leasing Trust - Library

On April 19, 2002, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$2,260,000 for the building of a new library. The agreement requires variable monthly payments for 240 months to be paid in full January 20, 2021 with an interest rate of 4.64% plus administrative fees. The principal balance of the agreement was \$1,035,178 as of June 30, 2014. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 125,135	\$ 56,122
2016	132,166	49,338
2017	139,592	42,172
2018	147,434	34,604
2019	155,553	26,611
20120-2021	<u>335,298</u>	<u>27,485</u>
Totals	<u>\$ 1,035,178</u>	<u>\$ 236,332</u>

F. Kentucky Association of Counties Leasing Trust - Backhoe/Loader

On September 29, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$47,607 for a backhoe/loader. The agreement requires variable monthly payments for 63 months to be paid in full January 20, 2014 with an interest rate of 4.563%. The lease was paid in full as of June 30, 2014.

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

Note 6. Long-term Debt (Continued)

G. Kentucky Association of Counties Leasing Trust - Ambulance

On January 12, 2009, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$89,980 for an ambulance. The agreement requires variable monthly payments for 60 months to be paid in full December 20, 2013 with an interest rate of 3.99%. The lease was paid in full as of June 30, 2014.

H. Kentucky Association of Counties Leasing Trust - Ambulance

On November 17, 2010, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$100,000 for an ambulance. The agreement requires variable monthly payments for 60 months to be paid in full November 20, 2014 with an interest rate of 4.51%. The principal balance of the agreement was \$10,417 as of June 30, 2014. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 10,417	\$ 120
Totals	\$ 10,417	\$ 120

I. Kentucky Association of Counties Leasing Trust - Building

On March 23, 2012, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the Amount of \$1,650,000 for a building located at New Highway 172, West Liberty, Kentucky, 41472. The agreement requires variable monthly payments for 34 months to be paid in full by March 20, 2015 with an interest rate of 4.15%. The principle balance of the agreement was \$1,420,833 as of June 30, 2014. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 1,420,833	\$ 47,769
Totals	\$ 1,420,833	\$ 47,769

J. Kentucky Association of Counties Leasing Trust - Truck

On November 6, 2012, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$149,316 for a Mack truck. The agreement requires variable monthly payments for 18 months to be paid in full May 20, 2014 with an interest rate of 3.74%. The lease was paid in full as of June 30, 2014.

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

Note 6. Long-term Debt (Continued)

K. Kentucky Association of Counties Leasing Trust - Ambulance

On January 18, 2013, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$105,823 for an ambulance. The agreement requires variable monthly payments for 48 months to be paid in full January 20, 2017 with an interest rate of 3.75%. The principal balance of the agreement was \$69,463 as of June 30, 2014. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 26,420	\$ 2,615
2016	27,010	1,399
2017	16,033	244
Totals	<u>\$ 69,463</u>	<u>\$ 4,258</u>

L. Kentucky Association of Counties Leasing Trust - Truck

On November 1, 2013, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$150,835 for a Mack truck. The agreement requires monthly interest payments for 23 months to be paid in full October 20, 2015. The principal balance of the agreement was \$150,835 as of June 30, 2014. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$	\$ 6,854
2016	150,835	2,285
	<u>\$ 150,835</u>	<u>\$ 9,139</u>

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

Note 6. Long-term Debt (Continued)

M. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 14,935,000	\$	\$ 700,000	\$ 14,235,000	\$ 710,000
General Obligation Note	2,627,489		2,627,489		
General Obligation Bond	1,581,818		41,818	1,540,000	40,000
Financing Obligations	2,994,113	150,835	458,222	2,686,726	1,582,805
Total Long-term Debt	<u>\$ 22,138,420</u>	<u>\$ 150,835</u>	<u>\$ 3,827,529</u>	<u>\$ 18,461,726</u>	<u>\$ 2,332,805</u>

Note 7. Fund Balance - Deficits

As of June 30, 2014, the general fund and jail fund had deficit fund balances in the amount of \$14,762 and \$12,567, respectively. The deficits are due to transfers from restricted funds and the resulting interfund payables and outstanding liabilities/encumbrances for fiscal year ended June 30, 2014.

	General Fund	Road Fund	Jail Fund
Fund Balance - Ending	\$ 124,013	\$ 450,519	\$ 13,823
Interfund Receivable (Liabilities)	<u>(138,775)</u>	<u>165,165</u>	<u>(26,390)</u>
Fund Balance - Ending	<u>\$ (14,762)</u>	<u>\$ 615,684</u>	<u>\$ (12,567)</u>

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

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). 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 five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$178,920, FY 2013 was \$178,288, and FY 2014 was \$177,216.

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

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

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

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

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

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

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

Note 8. Employee Retirement System (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

Note 9. Deferred Compensation

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

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

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

Note 10. Insurance

For the fiscal year ended June 30, 2014, the Morgan County Fiscal Court 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.

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

Note 11. New Markets Tax Credits Projects

A. Morgan County Real Properties I, Inc.

The Morgan County Real Properties I, Inc., a Kentucky nonprofit, tax-exempt corporation, was created for the sole purpose of acquiring and financing the Health and Wellness Center and the Old Morgan County Courthouse Building for the benefit of Morgan County. The projects are located in a severely distressed – primary census tract that enable a taxpayer to receive New Markets Tax Credits (NMTC) for making a Qualified Equity Investment (QEI) into a Community Development Entity (CDE) if the CDE then makes an equity investment or loan (i.e., a Qualified Low-Income Community Investment or QLICI) to a Qualified Active Low-Income Community Business (QALICB) and all other criteria of the NMTC program are met. Investors receive tax credits over a seven year period for making the QEIs to the CDEs. Under NMTC regulations, the investor will be required to recapture NMTC if, during the seven year period after the QEI is made (1) the CDEs fail to qualify as CDEs, (2) the CDEs fail to maintain substantially all of the QEI invested in QLICIs or (3) the CDEs make a distribution that is treated as a redemption. At the expiration of the seven year compliance period, the NMTC transaction will wind down and through a series of transactions, Morgan County will once again become the legal and beneficial owner of these real properties. The audit report for the Morgan County Real Properties I, Inc., can be obtained from the Morgan County Fiscal Court, 450 Prestonsburg Street, West Liberty, Kentucky 41472.

B. Morgan County Real Properties II, Inc.

The Morgan County Real Properties II, Inc., a Kentucky nonprofit, tax-exempt corporation, was created for the sole purpose of acquiring and financing the Morgan County Cooperative Extension Service Building, the Morgan County Community Center, and the Morgan County Transit Station Building and Parking Garage for the benefit of Morgan County. The projects are located in a severely distressed – primary census tract that enable a taxpayer to receive New Markets Tax Credits (NMTC) for making a Qualified Equity Investment (QEI) into a Community Development Entity (CDE) if the CDE then makes an equity investment or loan (i.e., a Qualified Low-Income Community Investment or QLICI) to a Qualified Active Low-Income Community Business (QALICB) and all other criteria of the NMTC program are met. Investors receive tax credits over a seven year period for making the QEIs to the CDEs. Under the NMTC regulations, the investor will be required to recapture NMTC if, during the seven year period after the QEI is made (1) the CDEs fail to qualify as CDEs, (2) the CDEs fail to maintain substantially all of the QEI invested in QLICIs or (3) the CDEs make a distribution that is treated as a redemption. At the expiration of the seven year compliance period, the NMTC transaction will wind down and through a series of transactions, Morgan County will once again become the legal and beneficial owner of these real properties. The audit report for the Morgan County Real Properties II, Inc., can be obtained from the Morgan County Fiscal Court, 450 Prestonsburg Street, West Liberty, Kentucky 41472.

Note 12. Master Real Estate Lease Agreements

A. Health and Wellness Center and Old Morgan County Courthouse Building

On January 7, 2013, the Morgan County Fiscal Court entered into a master real estate lease agreement with Morgan County Real Properties I, Inc. (MCRP I), a Kentucky nonprofit nonstock, tax-exempt corporation, in which MCRP I leases certain properties to Morgan County, located in West Liberty, Kentucky, which include the Health and Wellness Center and the Old Morgan County Courthouse Building. The Morgan County Fiscal Court pays in equal quarterly installments, partially in arrears and partially in advance, payable on the twenty-fifth day of the second month of each quarter to MCRP I. Payments are as follows:

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

Note 12. Master Real Estate Lease Agreements (Continued)

A. Health and Wellness Center and Old Morgan County Courthouse Building (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$	\$ 154,522
2016		154,522
2017		154,522
2018		154,522
2019		154,522
2020-2024	2,826,138	698,484
2025-2029	2,890,499	541,980
2030-2034	3,053,795	378,687
2035-2039	3,226,558	205,924
2040-2042	2,023,010	36,474
Totals	<u>\$ 14,020,000</u>	<u>\$ 2,634,159</u>

B. Morgan County Cooperative Extension Service Building, Community Center, Transit Station Building, and Parking Garage

On December 31, 2012, the Morgan County Fiscal Court entered into a master real estate lease agreement with Morgan County Real Properties II, Inc. (MCRP II), a Kentucky nonprofit nonstock, tax-exempt corporation, in which MCRP II leases certain properties to Morgan County, located in West Liberty, Kentucky, which include the Morgan County Cooperative Extension Service Building, the Morgan County Community Center, and the Morgan County Transit Station Building and Parking Garage. The Morgan County Fiscal Court pays in equal quarterly installments, partially in arrears and partially in advance, payable on the twenty-fifth day of the second month of each quarter to Morgan County Real Properties II, Inc. Payments are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$	\$ 197,771
2016		197,771
2017		197,771
2018		197,771
2019	60,000	197,771
2020-2024	2,848,654	896,078
2025-2029	3,043,892	700,849
2030-2034	3,252,629	492,108
2035-2039	3,475,818	268,924
2040-2042	2,199,007	47,838
Totals	<u>\$ 14,880,000</u>	<u>\$ 3,394,652</u>

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

Note 13. Significant Unpaid Obligation

The county has an unpaid obligation for services provided from a vendor after the tornado on March 2, 2012. This vendor provided delivery and pickup of items for temporary use which include the following items: office space (tent and trailers), storage trailer, tables, chairs, portable restrooms, generators, HVAC system, lighting, and two all-terrain vehicles. The county used these items for approximately 3 months. The unpaid invoices total \$954,936.

Note 14. Commitments and Contingencies

The county is involved in a lawsuit regarding the significant unpaid obligation as described in Note 13. This case is still in discovery and no trial date has been set.

Note 15. Subsequent Events

- A. On July 31, 2014, the Morgan County Fiscal Court issued the General Obligation Bond Anticipation Note, Series 2014, in the amount of \$551,725 with Commercial Bank to refinance the Revenue Bond Anticipation Notes, Series 2013, which was used to provide interim funds for expenses relating to the tornado disaster projects. Interest payments were due each month at 3.62% with the principal due on June 15, 2015.
- B. On April 1, 2015, the Morgan County Fiscal Court entered into a General Obligation Lease, Series 2015B, with the Kentucky Association of Counties in the amount of \$4,655,000 with the Kentucky Association of Counties Finance Corporation. The purpose of this was to pay off:
 - A lease with the Kentucky Association of Counties in the amount of \$1,650,000 for a building located at New Highway 172, West Liberty, Kentucky, 41472, dated March 23, 2012.
 - Revenue Bond Anticipation Notes, Series 2012, in the amount of \$1,500,000 with Commercial Bank. This was used as a line of credit to provide interim funds to pay for expenses relating to the tornado disaster projects until the county was reimbursed by FEMA.
 - Revenue Bond Anticipation Notes, Series 2013, in the amount of \$551,725 with Commercial Bank to refinance the Revenue Bond Anticipation Notes, Series 2012, which was used to provide interim funds for expenses relating to the tornado disaster projects.
- C. On September 29, 2015, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$156,981 for a Mack truck. The agreement requires monthly interest payments for 18 months to be paid in full March 20, 2017.
- D. The Morgan County Fiscal Court did not make the required payments on five leases with the Kentucky Association of Counties totaling \$221,307 that were due on January 20, 2016. On February 11, 2016, the county made the required lease payments.

Note 16. Related Party Transactions

The former Morgan County Treasurer was an employee of the depository where the county's cash and cash equivalents were held. He was county treasurer through April 2014.

Note 17. Prior Period Adjustments

The beginning fund balances of the general fund, the road fund, the jail fund, and the special projects fund were increased by \$1,499, \$206, \$180, and \$1,514, respectively, due to prior year voided checks.

MORGAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

MORGAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,334,850	\$ 1,371,237	\$ 1,428,626	\$ 57,389
In Lieu Tax Payments			36,488	36,488
Excess Fees	400	111,452	111,452	
Licenses and Permits	2,578	2,578	1,883	(695)
Intergovernmental	3,372,525	3,383,788	322,543	(3,061,245)
Charges for Services	9,500	9,500	7,948	(1,552)
Miscellaneous	258,048	391,629	368,911	(22,718)
Interest	1,250	5,377	5,400	23
Total Receipts	<u>4,979,151</u>	<u>5,275,561</u>	<u>2,283,251</u>	<u>(2,992,310)</u>
DISBURSEMENTS				
General Government	964,224	1,484,878	1,237,167	247,711
Protection to Persons and Property	80,610	106,673	96,786	9,887
General Health and Sanitation	121,828	181,169	168,841	12,328
Social Services	4,500	5,500	3,500	2,000
Recreation and Culture	37,708	42,412	4,014	38,398
Debt Service	3,098,697	3,134,091	489,948	2,644,143
Capital Projects	1,800	10,237	10,237	
Administration	898,651	539,468	402,142	137,326
Total Disbursements	<u>5,208,018</u>	<u>5,504,428</u>	<u>2,412,635</u>	<u>3,091,793</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(228,867)</u>	<u>(228,867)</u>	<u>(129,384)</u>	<u>99,483</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	88,141	88,141	513,141	425,000
Transfers To Other Funds	<u>(368,811)</u>	<u>(368,811)</u>	<u>(693,783)</u>	<u>(324,972)</u>
Total Other Adjustments to Cash (Uses)	<u>(280,670)</u>	<u>(280,670)</u>	<u>(180,642)</u>	<u>100,028</u>
Net Change in Fund Balance	(509,537)	(509,537)	(310,026)	199,511
Fund Balance - Beginning (Restated)	<u>509,537</u>	<u>509,537</u>	<u>434,039</u>	<u>(75,498)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 124,013</u>	<u>\$ 124,013</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 48,866	\$ 48,866	\$ 43,103	\$ (5,763)
Intergovernmental	1,928,059	2,466,770	2,271,661	(195,109)
Miscellaneous	136,385	136,385	130,200	(6,185)
Interest	3,500	3,500	2,204	(1,296)
Total Receipts	<u>2,116,810</u>	<u>2,655,521</u>	<u>2,447,168</u>	<u>(208,353)</u>
DISBURSEMENTS				
General Government	250	1,370	723	647
Roads	876,465	898,210	852,203	46,007
Debt Service	343,805	350,248	345,359	4,889
Capital Projects	290,000	662,240	571,970	90,270
Administration	555,849	693,012	318,915	374,097
Total Disbursements	<u>2,066,369</u>	<u>2,605,080</u>	<u>2,089,170</u>	<u>515,910</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>50,441</u>	<u>50,441</u>	<u>357,998</u>	<u>307,557</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			150,835	150,835
Transfers From Other Funds	37,200	37,200	443,324	406,124
Transfers To Other Funds	(88,141)	(88,141)	(513,141)	(425,000)
Total Other Adjustments to Cash (Uses)	<u>(50,941)</u>	<u>(50,941)</u>	<u>81,018</u>	<u>131,959</u>
Net Change in Fund Balance	(500)	(500)	439,016	439,516
Fund Balance - Beginning (Restated)	<u>500</u>	<u>500</u>	<u>11,503</u>	<u>11,003</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 450,519</u>	<u>\$ 450,519</u>

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

JAIL FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 89,750	\$ 92,286	\$ 88,279	\$ (4,007)
Charges for Services	65,000	65,000	46,290	(18,710)
Miscellaneous	100	100	43	(57)
Interest	100	100	17	(83)
Total Receipts	<u>154,950</u>	<u>157,486</u>	<u>134,629</u>	<u>(22,857)</u>
DISBURSEMENTS				
Protection to Persons and Property	571,811	572,893	456,104	116,789
Administration	39,250	40,704	40,620	84
Total Disbursements	<u>611,061</u>	<u>613,597</u>	<u>496,724</u>	<u>116,873</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(456,111)</u>	<u>(456,111)</u>	<u>(362,095)</u>	<u>94,016</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>455,611</u>	<u>455,611</u>	<u>373,946</u>	<u>(81,665)</u>
Total Other Adjustments to Cash (Uses)	<u>455,611</u>	<u>455,611</u>	<u>373,946</u>	<u>(81,665)</u>
Net Change in Fund Balance	(500)	(500)	11,851	12,351
Fund Balance - Beginning (Restated)	<u>500</u>	<u>500</u>	<u>1,972</u>	<u>1,472</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,823</u>	<u>\$ 13,823</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 124,000	\$ 168,190	\$ 162,505	\$ (5,685)
Total Receipts	<u>124,000</u>	<u>168,190</u>	<u>162,505</u>	<u>(5,685)</u>
DISBURSEMENTS				
Administration		44,190		44,190
Total Disbursements		<u>44,190</u>		<u>44,190</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>124,000</u>	<u>124,000</u>	<u>162,505</u>	<u>38,505</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(124,000)</u>	<u>(124,000)</u>	<u>(127,270)</u>	<u>(3,270)</u>
Total Other Adjustments to Cash (Uses)	<u>(124,000)</u>	<u>(124,000)</u>	<u>(127,270)</u>	<u>(3,270)</u>
Net Change in Fund Balance			35,235	35,235
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 35,235</u>	<u>\$ 35,235</u>

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

FOREST FIRE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,500	\$ 3,500	\$	\$ (3,500)
Interest	20	20		(20)
Total Receipts	<u>3,520</u>	<u>3,520</u>		<u>(3,520)</u>
DISBURSEMENTS				
Protection to Persons and Property	<u>3,520</u>	<u>3,520</u>	<u>3,783</u>	<u>(263)</u>
Total Disbursements	<u>3,520</u>	<u>3,520</u>	<u>3,783</u>	<u>(263)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(3,783)</u>	<u>(3,783)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			<u>3,783</u>	<u>3,783</u>
Total Other Adjustments to Cash (Uses)			<u>3,783</u>	<u>3,783</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

SPECIAL PROJECTS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 223,500	\$ 268,500	\$ 220,457	\$ (48,043)
Miscellaneous	10,000	12,000	8,500	(3,500)
Interest	1,000	1,000	348	(652)
Total Receipts	<u>234,500</u>	<u>281,500</u>	<u>229,305</u>	<u>(52,195)</u>
DISBURSEMENTS				
Protection to Persons and Property		30,000	29,950	50
General Health and Sanitation	36,500	48,639	47,748	891
Social Services		18,653	18,653	
Debt Service		20,306	19,370	936
Capital Projects	187,500	154,100	150,873	3,227
Administration	11,000	10,302		10,302
Total Disbursements	<u>235,000</u>	<u>282,000</u>	<u>266,594</u>	<u>15,406</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(500)</u>	<u>(500)</u>	<u>(37,289)</u>	<u>(36,789)</u>
Net Change in Fund Balance	(500)	(500)	(37,289)	(36,789)
Fund Balance - Beginning (Restated)	<u>500</u>	<u>500</u>	<u>50,159</u>	<u>49,659</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,870</u>	<u>\$ 12,870</u>

MORGAN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

Protections to persons and property disbursements in the forest fire fund exceeded budgeted appropriations by \$263.

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

MORGAN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,779,159	\$	\$	\$ 2,779,159
Construction In Progress	6,421,010	7,247,943		13,668,953
Land Improvements	2,198,361			2,198,361
Buildings	9,385,788			9,385,788
Furnishings	43,773			43,773
Vehicles and Equipment	2,279,663			2,279,663
Infrastructure	15,086,248	234,719		15,320,967
Total Capital Assets	<u>\$ 38,194,002</u>	<u>\$ 7,482,662</u>	<u>\$ 0</u>	<u>\$ 45,676,664</u>

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

June 30, 2014

Note 1. Capital Assets

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

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	5-7
Infrastructure	\$ 20,000	2-40

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Stanley Franklin, Morgan County Judge/Executive
The Honorable Tim Conley, Former Morgan County Judge/Executive
Members of the Morgan County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Morgan County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated April 8, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2014-009 to be a material weakness.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2014-007, and 2014-008.

County Judge's Responses to Findings

The Morgan County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Morgan County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 8, 2016

**MORGAN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

MORGAN COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

STATE LAWS AND REGULATIONS:

2014-001 The General Fund And Jail Fund Have Deficit Balances Totaling \$27,329

The county's general fund and jail fund have deficit balances of \$14,762 and \$12,567, respectively, as of June 30, 2014. The general fund owes the road fund \$138,775 due to transfer station disbursements being paid from the road fund. The jail fund owes the road fund \$26,390 due to Local Government Economic Assistance (LGEA) funds being transferred to the jail fund that should have been used for transportation. Due to this, the road fund's ending cash balance was reduced by a total of \$165,165. Road monies are restricted by KRS 177.320 and KRS 177.360. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement. The unpaid liabilities and deficit balances are as follows:

	General Fund	Jail Fund	Totals
Fund Balance - Ending	\$ 124,013	\$ 13,823	\$ 137,836
Interfund Liabilities	(138,775)	(26,390)	(165,165)
 Fund Balance - Ending	 \$ (14,762)	 \$ (12,567)	 \$ (27,329)

We recommend the county ensure that restricted monies are spent properly in the future and avoid having deficit balances.

County Judge/Executive Stanley Franklin's Response: We agree with the auditors' finding and recommendation. This issue came to our attention during our 2015-2016 budget process. Transfer station expenses are now budgeted and paid from the general fund. The jail fund deficit was caused by the change in the county's coal severance status from a coal producing county to a coal impact county during the fiscal year. The prior treasurer was unaware of this change and inadvertently transferred seventy percent of coal severance receipts to the road fund when one hundred percent of the receipts should have been transferred to the road fund.

2014-002 Transfer Station Disbursements Should Not Be Paid From The Road Fund

Disbursements totaling \$138,775 for operations of the county's solid waste transfer station were made from the road fund. Solid waste transfer station employee salaries are budgeted and paid from the same account code as road workers' salaries. By doing this, the county has reduced the amount of funds available to spend on road repairs and maintenance. KRS 177.320 and 177.360 restrict disbursements from the road fund to be used for secondary and rural road maintenance, repairs, and related activities. We recommend the fiscal court ensure that only proper payments for allowable activities are made from restricted road fund monies. Further, we recommend the general fund pay the road fund \$138,775.

County Judge/Executive Stanley Franklin's Response: We agree with the auditors' finding and recommendation. See response to 2014-001. Furthermore, we plan to implement a payment plan to pay the \$138,775 owed from the general fund to the road fund. This repayment is expected to begin in the 2016-2017 fiscal year and will be addressed in the 2016-2017 budget.

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

STATE LAWS AND REGULATIONS: (Continued)

2014-003 The Morgan County Fiscal Court Did Not Comply With Regulations For Local Government Economic Assistance Coal-Impact Funds

The county did not comply with KRS 42.455 and KRS 42.470(1)(c) regarding coal-impact funds received through the Local Government Economic Assistance (LGEA) program. KRS 42.470(1)(c) requires that coal-impact counties must expend 100 percent of LGEA funds in the transportation category. The county transferred \$26,390 of coal-impact funds to the jail fund. This resulted in coal-impact funds being used for jail activities instead of transportation as required. We recommend the fiscal court monitor the amounts received and expended in the LGEA fund to ensure compliance with LGEA regulations in the future. Further, we recommend the jail fund pay the road fund \$26,390.

County Judge/Executive Stanley Franklin's Response: We agree with the auditors' finding and recommendation. See response to 2014-001. Furthermore, we plan to implement a payment plan to pay the \$26,390 owed from the jail fund to the road fund. The repayment is expected to begin in the 2016-2017 fiscal year and will be addressed in the 2016-2017 budget.

2014-004 Public Properties Corporation Disbursements Were Not Approved By The Project Development Board

Documentation could not be found of approval of \$1,922,590 of public properties corporation disbursements for the judicial center. All disbursements are required to be approved by the project development board before payment is made. All payments were signed off by the former county judge/executive and a representative of the Administrative Office of the Courts, but the project development board members may not have been aware of the disbursements being paid. We recommend all disbursements be approved in the official minutes of the project development board with a listing of each vendor and amount to be paid.

County Judge/Executive Stanley Franklin's Response: We agree with the auditors that all expenditures of the Project Development Board should be approved by the Board and documented in the official minutes of the Board. Any future disbursements will be approved by the Board and recorded in the official minutes of the meetings.

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

STATE LAWS AND REGULATIONS: (Continued)

2014-005 The Morgan County Fiscal Court Did Not Properly Withhold Employees' Health Insurance Premiums

We found that the county paid the entire health insurance premium for a family plan for an employee of the Morgan County Attorney's office. The administrative code says the county should provide single coverage for health insurance as prescribed in the group insurance contract. Officers or employees who wish to purchase additional coverage for family members shall pay the full costs for the optional insurance. For the fiscal year ending June 30, 2014, the single plan for this employee would have cost \$599 a month. However, the county was paying \$1,001 each month for a plan to add a dependent. The additional \$402 should have been withheld from the employee's paycheck, totaling \$4,824 for the fiscal year. This employee started receiving health insurance benefits in 2011. We recommend the county calculate the total amount of health insurance premiums that were paid in excess of the single plan for this employee since her employment began to determine the total amount due back to the county. We recommend the county ensure health insurance premiums are properly withheld from employees' paychecks in the future.

County Judge/Executive Stanley Franklin's Response: The fiscal court was informed of this issue and voted not to request reimbursement from the individual. This is an ongoing issue that the current treasurer is in the process of correcting.

2014-006 The Morgan County Fiscal Court Did Not Pay Invoices Within 30 Working Days

Health insurance invoices were not paid in a timely manner. The county did not have procedures in place to ensure that health insurance invoices were paid timely. Per KRS 65.140(2), all bills for goods and services shall be paid within 30 working days of the vendor's invoice except when payment is delayed because the purchaser has made a written disapproval. If payment of an invoice exceeds 30 days, a 1% interest payment should be added. We recommend the county comply with KRS 65.140 by paying invoices within 30 working days.

County Judge/Executive Stanley Franklin's Response: We are aware of the 30 working day requirement of KRS 65.140 and agree with the auditors' finding. We are not familiar with the circumstances of this particular instance because it occurred prior to my tenure as Judge/Executive. Due to our current financial hardships, we may have similar issues in the future and will have to determine how to handle them on a case by case basis. There will be times to avoid violating other KRSs, we will be required to violate this one. For instance, KRS 68.110(1) requires that the fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for the year or levied, collected or appropriated for any special purpose. In order to avoid violating this KRS, we may have to postpone payments longer than 30 working days to some vendors.

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

STATE LAWS AND REGULATIONS: (Continued)

2014-007 The Morgan County Fiscal Court Did Not Approve A Salary Schedule

A salary schedule was included in the minutes of the fiscal court; however, we could not find where it was approved by the fiscal court. KRS 64.530 says the fiscal court of each county shall fix the reasonable compensation of every county officer and employee. The county did not have procedures in place to ensure a salary schedule was approved. Employees could be paid an incorrect amount without a properly approved schedule. We recommend the county list all employees and each salary or hourly pay rate for each specific job duty. The county should also include the starting pay rates for entry-level positions. The county should revise this list as increases in pay are approved by the fiscal court.

County Judge/Executive Stanley Franklin's Response: The fiscal court approved a salary schedule in January 2015 in accordance with KRS 64.530.

2014-008 Timesheets Were Not Properly Maintained

We found that two out of 13 employees tested did not have timesheets. KRS 337.320 says every employer shall keep record of the hours worked each day and each week by each employee to be kept on file for at least one year. The county did not have procedures in place to ensure all employees maintained timesheets. Without proper timesheets, there is no documentation that employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance, and there is no record of leave time used. The employee and the appropriate supervisor should sign all timesheets to verify the accuracy of time worked and leave used. We recommend all employees maintain timesheets in the future.

County Judge/Executive Stanley Franklin's Response: We agree that all employees should maintain timesheets as required by KRS 337.320. One of the individuals was a part time employee and is no longer an employee of the county. The other individual is an employee of the County Attorney's office and we are currently attempting to rectify the timesheet issue with the County Attorney.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-009 The Morgan County Fiscal Court Does Not Have Adequate Controls Over Bank Reconciliations

The monthly bank reconciliations are not reviewed by a person that is independent of receipts and disbursements. The county treasurer prepares the monthly bank reconciliations and is also involved in the receipt and disbursement of cash. Good internal controls dictate the bank reconciliation should be prepared or reviewed by someone not involved in the receipt and disbursement of cash. This reduces the risk of errors and misstatements to the financial statement. Typically when one person is in charge of these functions, strong compensating controls are needed. We recommend the following procedures be implemented to strengthen internal controls:

- An independent person should open bank statements and review them for unusual items, such as debit memos and overdraft charges. The person can document this by initialing the bank statement.
- An independent person should review the treasurer's bank reconciliations for accuracy and agree them to book balances for all funds. The person completing this review should initial the bank reconciliation to document that a review was performed.

County Judge/Executive Stanley Franklin's Response: We agree with the auditors' finding and recommendation. Efforts will be made in the future to implement the compensating controls recommended.

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

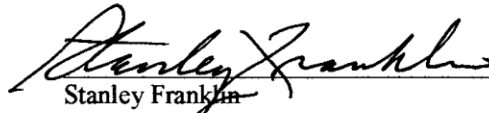
MORGAN COUNTY FISCAL COURT

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

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MORGAN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

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


Stanley Franklin
County Judge/Executive


Linzey Lewis
County Treasurer

