

Report on the

Morgan County Commission

Morgan County, Alabama

October 1, 2016 through September 30, 2017

Filed: March 15, 2019



Department of Examiners of Public Accounts

401 Adams Avenue, Suite 280
Montgomery, Alabama 36104-4338
P.O. Box 302251
Montgomery, Alabama 36130-2251
Website: www.examiners.alabama.gov

Rachel Laurie Riddle, Chief Examiner



State of Alabama
Department of
Examiners of Public Accounts

P.O. Box 302251, Montgomery, AL 36130-2251
401 Adams Avenue, Suite 280
Montgomery, Alabama 36104-4338
Telephone (334) 242-9200
FAX (334) 242-1775

Rachel Laurie Riddle
Chief Examiner

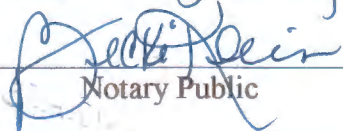
Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

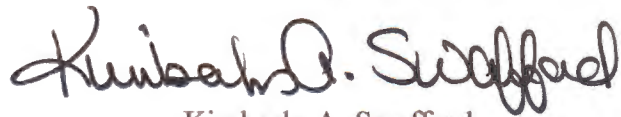
Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, I submit this report on the results of the audit of the Morgan County Commission, Morgan County, Alabama, for the period October 1, 2016 through September 30, 2017.

Respectfully submitted,

Sworn to and subscribed before me this
the 31st day of January, 2019.



Notary Public



Kimberly A. Swafford
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Morgan County Commission
October 1, 2016 through September 30, 2017**

The Morgan County Commission (the "Commission") is governed by a five-member body elected by the citizens of Morgan County. The members and administrative personnel in charge of governance of the Commission are listed on Exhibit 17. The Commission is the governmental agency that provides general administration, public safety, construction and maintenance of county roads and bridges, sanitation services, health and welfare services and educational services to the citizens of Morgan County.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Commission complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted 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 as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12, as added by Act Number 2018-129.

An unmodified opinion was issued on the financial statements, which means that the Commission's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2017.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

Commission members and administrative personnel, as reflected on Exhibit 17, were invited to discuss the results of this report at an exit conference. Individuals in attendance were: Commissioners: Ray Long, Chairman of the Morgan County Commission; Commission Members: Jeff Clark, Don Stisher, Greg Abercrombie, and Randy Vest. Also in attendance was a representative from the Department of Examiners of Public Accounts: Kimberly A. Swafford, Examiner of Public Accounts.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Morgan County Commission and County Administrator
Decatur, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Morgan County Commission, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Morgan County Commission's basic financial statements as listed in the table of contents as Exhibits 1 through 11.

Management's Responsibility for the Financial Statements

The management of the Morgan County Commission is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Morgan County Commission, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

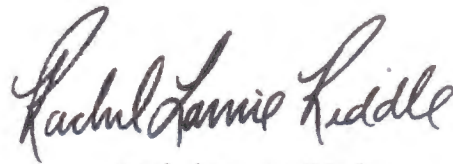
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), Schedule of Changes in the Net Pension Liability, Schedule of the Employer's Contributions, Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, and Schedule of Funding Progress – Other Postemployment Benefits (Exhibits 12 through 16), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurances on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated January 28, 2019, on our consideration of the Morgan County Commission'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 solely 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 effectiveness of the Morgan County Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Morgan County Commission's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

January 28, 2019

Basic Financial Statements

Statement of Net Position
September 30, 2017

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
<u>Current Assets</u>			
Cash and Cash Equivalents	\$ 15,271,391.89	\$ 1,489,076.45	\$ 16,760,468.34
Receivables (Note 4)	1,522,591.26	215,265.42	1,737,856.68
Ad Valorem Taxes Receivable	14,658,263.77		14,658,263.77
Prepaid Items	291,222.47		291,222.47
Total Current Assets	31,743,469.39	1,704,341.87	33,447,811.26
<u>Noncurrent Assets</u>			
Restricted Cash	538,590.99		538,590.99
Restricted Cash with Fiscal Agent	374,739.86		374,739.86
Capital Assets (Note 5):			
Nondepreciable	5,792,787.67		5,792,787.67
Depreciable, Net	61,235,150.13	3,295,911.70	64,531,061.83
Total Noncurrent Assets	67,941,268.65	3,295,911.70	71,237,180.35
Total Assets	99,684,738.04	5,000,253.57	104,684,991.61
<u>Deferred Outflows of Resources</u>			
Employer Pension Contributions	922,611.59	36,849.09	959,460.68
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	1,778,988.24	71,052.76	1,850,041.00
Total Deferred Outflows of Resources	2,701,599.83	107,901.85	2,809,501.68
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Payables (Note 9)	1,020,609.11	52,045.19	1,072,654.30
Unearned Revenue	298,732.52		298,732.52
Accrued Interest Payable	380,088.31		380,088.31
Long-Term Liabilities:			
Portion Payable Within One Year:			
Capital Leases Payable	231,222.29		231,222.29
Warrants Payable	1,760,000.00		1,760,000.00
Notes Payable	21,538.56		21,538.56
Premium on Bond Issuance	13,386.03		13,386.03
Estimated Claims Costs Payable	111,909.08	6,114.05	118,023.13
Estimated Liability for Compensated Absences	349,928.58	10,009.48	359,938.06
Total Current Liabilities	\$ 4,187,414.48	\$ 68,168.72	\$ 4,255,583.20

The accompanying Notes to the Financial Statements are an integral part of this statement.

	Governmental Activities	Business-Type Activities	Total
<u>Noncurrent Liabilities</u>			
Portion Payable After One Year:			
Capital Leases Payable	\$ 439,483.51	\$	\$ 439,483.51
Warrants Payable	26,950,000.00		26,950,000.00
Notes Payable	92,091.27		92,091.27
Estimated Liability for			
Compensated Absences	748,173.84	30,009.73	778,183.57
Other Postemployment Benefit Obligation	6,767,586.92	288,905.59	7,056,492.51
Net Pension Liability	11,479,501.69	430,374.31	11,909,876.00
Premium on Bond Issuance	160,632.41		160,632.41
Total Noncurrent Liabilities	<u>46,637,469.64</u>	<u>749,289.63</u>	<u>47,386,759.27</u>
Total Liabilities	<u>50,824,884.12</u>	<u>817,458.35</u>	<u>51,642,342.47</u>
<u>Deferred Inflows of Resources</u>			
Unavailable Revenue - Property Taxes	14,658,263.77		14,658,263.77
Revenue Received in Advance -			
Motor Vehicle Taxes	786,430.94		786,430.94
Proportionate Share of Collective Deferred			
Inflows Related to Net Pension Liability	438,248.00	15,481.00	453,729.00
Total Deferred Inflows of Resources	<u>15,882,942.71</u>	<u>15,481.00</u>	<u>15,898,423.71</u>
<u>Net Position</u>			
Net Investment in Capital Assets	37,533,602.17	3,295,911.70	40,829,513.87
Restricted for:			
Debt Service	11,825.90		11,825.90
Law Enforcement	179,834.82		179,834.82
Highways and Roads	2,727,679.14		2,727,679.14
Capital Projects	510,763.44		510,763.44
Other Purposes	2,211,961.24		2,211,961.24
Unrestricted	<u>(7,497,155.67)</u>	<u>979,304.37</u>	<u>(6,517,851.30)</u>
Total Net Position	<u>\$ 35,678,511.04</u>	<u>\$ 4,275,216.07</u>	<u>\$ 39,953,727.11</u>

Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General Government	\$ 9,543,873.18	\$ 5,014,217.18	\$ 953,191.41
Public Safety	17,979,507.68	1,258,801.80	6,128,981.42
Highways and Roads	7,099,524.66	169,976.99	4,157,140.50
Sanitation	203,145.76	186,566.65	
Health	696,488.75	83,529.00	7,545.72
Welfare	720,916.51		41,479.17
Culture and Recreation	1,434,874.93	182,929.29	
Education	184,996.28		
Interest and Fiscal Charges	824,963.76		
Total Governmental Activities	38,688,291.51	6,896,020.91	11,288,338.22
Business-Type Activities:			
Environmental Services	2,900,553.04	2,902,100.08	
Total Business-Type Activities	2,900,553.04	2,902,100.08	
Total Primary Government	\$ 41,588,844.55	\$ 9,798,120.99	\$ 11,288,338.22

General Revenues:

Taxes:
Property Taxes for General Purposes
Property Taxes for Specific Purposes
TVA Payments In-Lieu of Taxes
Miscellaneous Taxes
Grants and Contributions Not Restricted
for Specific Programs
Investment Earnings
Gain on Disposal of Assets
Miscellaneous
Total General Revenues

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

The accompanying Notes to the Financial Statements are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Position			
Primary Government			
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 516,320.97	\$ (3,060,143.62)	\$	\$ (3,060,143.62)
63,319.00	(10,528,405.46)		(10,528,405.46)
2,574,587.01	(197,820.16)		(197,820.16)
	(16,579.11)		(16,579.11)
	(605,414.03)		(605,414.03)
	(679,437.34)		(679,437.34)
	(1,251,945.64)		(1,251,945.64)
	(184,996.28)		(184,996.28)
	(824,963.76)		(824,963.76)
3,154,226.98	(17,349,705.40)		(17,349,705.40)
		1,547.04	1,547.04
		1,547.04	1,547.04
<u>\$ 3,154,226.98</u>	<u>(17,349,705.40)</u>	<u>1,547.04</u>	<u>(17,348,158.36)</u>
	10,499,088.72		10,499,088.72
	6,730,624.73		6,730,624.73
	2,343,906.46		2,343,906.46
	568,018.01		568,018.01
	519,714.26		519,714.26
	58,496.54	4,031.49	62,528.03
	62,187.00	99,110.00	161,297.00
	463,309.60	3,595.75	466,905.35
	<u>21,245,345.32</u>	<u>106,737.24</u>	<u>21,352,082.56</u>
	3,895,639.92	108,284.28	4,003,924.20
	<u>31,782,871.12</u>	<u>4,166,931.79</u>	<u>35,949,802.91</u>
<u>\$ 35,678,511.04</u>	<u>\$ 4,275,216.07</u>	<u>\$ 39,953,727.11</u>	

Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Gasoline Tax Fund
<u>Assets</u>		
Cash	\$ 7,280,760.35	\$ 1,178,817.12
Cash With Fiscal Agent		
Receivables (Note 4)	867,590.10	208,842.00
Ad Valorem Taxes Receivable	13,805,000.00	
Interfund Receivables	22,226.66	
Prepaid Items	34,523.12	
Total Assets	<u>22,010,100.23</u>	<u>1,387,659.12</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Payables (Note 9)	659,472.00	25,813.00
Interfund Payables		
Estimated Claims Cost Payable	91,725.31	11,971.40
Unearned Revenue	5,796.29	
Total Liabilities	<u>756,993.60</u>	<u>37,784.40</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	13,805,000.00	
Revenue Received in Advance - Motor Vehicle Taxes	786,430.94	
Total Deferred Inflows of Resources	<u>14,591,430.94</u>	
<u>Fund Balances</u>		
Nonspendable:		
Prepaid Items	34,523.12	
Restricted for:		
Debt Service		
Law Enforcement		
Highways and Roads		
Capital Projects		
Other Purposes		
Assigned to:		
Debt Service		
Industrial Development	510,864.65	
Highways and Roads		1,349,874.72
Other Purposes		
Unassigned	6,116,287.92	
Total Fund Balances	<u>6,661,675.69</u>	<u>1,349,874.72</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 22,010,100.23</u>	<u>\$ 1,387,659.12</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 7,350,405.41	\$ 15,809,982.88
374,739.86	374,739.86
446,159.16	1,522,591.26
853,263.77	14,658,263.77
	22,226.66
256,699.35	291,222.47
<u>9,281,267.55</u>	<u>32,679,026.90</u>
335,324.11	1,020,609.11
22,226.66	22,226.66
8,212.37	111,909.08
292,936.23	298,732.52
<u>658,699.37</u>	<u>1,453,477.37</u>
853,263.77	14,658,263.77
	786,430.94
<u>853,263.77</u>	<u>15,444,694.71</u>
256,699.35	291,222.47
391,914.21	391,914.21
179,834.82	179,834.82
2,727,679.14	2,727,679.14
510,763.44	510,763.44
2,211,961.24	2,211,961.24
1,471,555.43	1,471,555.43
	510,864.65
	1,349,874.72
18,896.78	18,896.78
	6,116,287.92
<u>7,769,304.41</u>	<u>15,780,854.82</u>
<u>\$ 9,281,267.55</u>	<u>\$ 32,679,026.90</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2017***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 15,780,854.82

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1)
are different because:

Capital assets used in governmental activities are not financial resources and, therefore,
are not reported as assets in governmental funds. These assets were added as net
capital assets in the following amount: 67,027,937.80

Deferred outflows and inflows of resources related to pensions are applicable to
future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Defined Benefit Pension Plan	\$ 2,701,599.83	
Deferred Inflows Related to Defined Benefit Pension Plan	<u>(438,248.00)</u>	
		2,263,351.83

Certain liabilities are not due and payable in the current period and, therefore, are not
reported as liabilities in the funds. These liabilities at year-end consist of:

	Current Liabilities	Noncurrent Liabilities	
Warrants Payable	\$ 1,760,000.00	\$ 26,950,000.00	
Notes Payable	21,538.56	92,091.27	
Unamortized Premium	13,386.03	160,632.41	
Capital Leases Payable	231,222.29	439,483.51	
Compensated Absences	349,928.58	748,173.84	
Net Pension Liability		11,479,501.69	
Other Postemployment Benefit Obligation		<u>6,767,586.92</u>	
Total Long-Term Liabilities	<u>\$ 2,376,075.46</u>	<u>\$ 46,637,469.64</u>	(49,013,545.10)

Accrued interest payable is not available soon enough to pay for the current period's
expenditures, and therefore is not shown in the funds. (380,088.31)

Total Net Position - Governmental Activities (Exhibit 1) \$ 35,678,511.04

The accompanying Notes to the Financial Statements are an integral part to this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Gasoline Tax Fund
<u>Revenues</u>		
Taxes	\$ 18,854,556.46	\$
Licenses and Permits	220,220.91	
Intergovernmental	2,765,050.46	2,131,063.62
Charges for Services	5,590,925.68	
Miscellaneous	733,431.68	13,481.96
Total Revenues	<u>28,164,185.19</u>	<u>2,144,545.58</u>
<u>Expenditures</u>		
Current:		
General Government	7,413,504.10	
Public Safety	11,906,346.96	
Highways and Roads	1,044,763.90	3,345,116.36
Sanitation	185,940.84	
Health	413,463.08	
Welfare	445,063.19	
Culture and Recreation	979,949.74	
Education	184,996.28	
Capital Outlay	787,075.26	91,308.00
Debt Service:		
Principal	204,290.25	45,044.53
Interest and Fiscal Charges	27,880.98	2,470.51
Administrative Charges		
Total Expenditures	<u>23,593,274.58</u>	<u>3,483,939.40</u>
Excess (Deficiency) of Revenues Over/(Under) Expenditures	<u>4,570,910.61</u>	<u>(1,339,393.82)</u>
<u>Other Financing Sources (Uses)</u>		
Transfers In	77,472.59	1,709,269.00
Proceeds from Sale of Capital Assets	88,194.00	15,075.00
Proceeds from Inception of Capital Lease	94,610.00	
Proceeds from Long-Term Debt	165,681.35	
Transfers Out	(3,774,073.00)	(72,190.00)
Total Other Financing Sources/Uses	<u>(3,348,115.06)</u>	<u>1,652,154.00</u>
Net Change in Fund Balances	1,222,795.55	312,760.18
Fund Balances - Beginning of Year	<u>5,438,880.14</u>	<u>1,037,114.54</u>
Fund Balances - End of Year	<u>\$ 6,661,675.69</u>	<u>\$ 1,349,874.72</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 1,287,081.46	\$ 20,141,637.92
3,323.00	223,543.91
7,354,379.81	12,250,493.89
3,481,386.17	9,072,311.85
30,518.19	777,431.83
<u>12,156,688.63</u>	<u>42,465,419.40</u>
1,411,240.65	8,824,744.75
4,548,257.83	16,454,604.79
1,483,570.72	5,873,450.98
	185,940.84
260,572.37	674,035.45
55,939.42	501,002.61
228,165.15	1,208,114.89
	184,996.28
4,763,276.67	5,641,659.93
1,725,000.00	1,974,334.78
812,488.76	842,840.25
8,422.50	8,422.50
<u>15,296,934.07</u>	<u>42,374,148.05</u>
<u>(3,140,245.44)</u>	<u>91,271.35</u>
2,136,994.00	3,923,735.59
	103,269.00
	94,610.00
	165,681.35
<u>(77,472.59)</u>	<u>(3,923,735.59)</u>
<u>2,059,521.41</u>	<u>363,560.35</u>
(1,080,724.03)	454,831.70
<u>8,850,028.44</u>	<u>15,326,023.12</u>
<u>\$ 7,769,304.41</u>	<u>\$ 15,780,854.82</u>

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Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2017

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5)	\$	454,831.70
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:		
Governmental funds report capital outlay as an expenditure. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$5,641,659.93) exceeds depreciation expense (\$2,663,535.20) in the current period.		2,978,124.73
In the Statement of Activities, gains and losses on the sale of capital assets is reported whereas, in the governmental funds, the proceeds from the sale increase the financial resources. Thus the change in net position differs from the change in fund balance by the cost of the capital assets sold.		(41,082.00)
Repayment of warrant principal and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		1,974,334.78
Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities.		(260,291.35)
Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities.		13,386.03
Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These items consist of:		
Net Changes in Compensated Absences	\$	8,611.85
Net Changes in Pension Expenses		(524,304.41)
Net Increase in Other Postemployment Benefit Obligation		(734,270.40)
		(1,249,962.96)
Expenditures in the Statement of Activities that do not require the use of current financial resources, such as accrued interest payable, are not reported as expenditures in the funds.		26,298.99
Change in Net Position of Governmental Activities (Exhibit 2)	\$	3,895,639.92

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Net Position
Proprietary Fund
September 30, 2017

	<u>Enterprise Fund</u> <u>Environmental</u> <u>Services</u> <u>Fund</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 1,489,076.45
Receivables (Note 4)	215,265.42
Total Current Assets	<u>1,704,341.87</u>
<u>Noncurrent Assets</u>	
Capital Assets, Depreciable, Net (Note 5)	3,295,911.70
Total Noncurrent Assets	<u>3,295,911.70</u>
Total Assets	<u>5,000,253.57</u>
<u>Deferred Outflows of Resources</u>	
Employer Pension Contributions	36,849.09
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	71,052.76
Total Deferred Outflows of Resources	<u>107,901.85</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Payables (Note 9)	52,045.19
Estimated Claims Costs Liability	6,114.05
Estimated Liability for Compensated Absences	10,009.48
Total Current Liabilities	<u>68,168.72</u>
<u>Noncurrent Liabilities</u>	
Estimated Liability for Compensated Absences	30,009.73
Net Pension Liability	430,374.31
Other Postemployment Benefit Obligation	288,905.59
Total Noncurrent Liabilities	<u>749,289.63</u>
Total Liabilities	<u>817,458.35</u>
<u>Deferred Inflows of Resources</u>	
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	15,481.00
Total Deferred Inflows of Resources	<u>15,481.00</u>
<u>Net Position</u>	
Net Investment in Capital Assets	3,295,911.70
Unrestricted	<u>979,304.37</u>
Total Net Position	<u>\$ 4,275,216.07</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended September 30, 2017

	<u>Enterprise Fund</u> <u>Environmental</u> <u>Services</u> <u>Fund</u>
<u>Operating Revenues</u>	
Charges for Services	\$ 2,902,100.08
Total Operating Revenues	<u>2,902,100.08</u>
<u>Operating Expenses</u>	
Salaries and Benefits	856,755.73
Contractual and Professional Services	283,639.63
Materials and Supplies	273,803.76
Repairs and Maintenance	148,061.27
Rentals	4,540.85
Utilities	16,644.32
Insurance	9,755.85
Depreciation	534,475.07
Landfill Expenses	517,063.03
Miscellaneous	125,059.81
Total Operating Expenses	<u>2,769,799.32</u>
Operating Income (Loss)	<u>132,300.76</u>
<u>Nonoperating Revenues (Expenses)</u>	
Interest Revenue	4,031.49
Interest Expense	(4,968.22)
Sale of Scrap Equipment	3,595.75
Gain/Loss on Disposal of Fixed Assets	(26,675.50)
Total Nonoperating Revenues (Expenses)	<u>(24,016.48)</u>
Change in Net Position	108,284.28
Total Net Position - Beginning of Year	<u>4,166,931.79</u>
Total Net Position - End of Year	<u>\$ 4,275,216.07</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2017

	<u>Enterprise Fund</u> <u>Environmental</u> <u>Services</u> <u>Fund</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from Customers	\$ 2,903,984.75
Payments to Suppliers	(1,392,767.88)
Payments to Employees	(810,364.78)
Net Cash Provided by Operating Activities	<u>700,852.09</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition of Capital Assets	(735,063.63)
Payments on Capital Debt	(514,906.13)
Sale of Scrap Equipment	3,595.75
Sale of Capital Assets	99,110.00
Interest Paid on Capital Debt	(14,808.87)
Net Cash Provided by Capital and Related Financing Activities	<u>(1,162,072.88)</u>
<u>Cash Flows from Investing Activities</u>	
Interest and Dividends	4,031.49
Net Cash Provided by Investing Activities	<u>4,031.49</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(457,189.30)
Cash and Cash Equivalents - Beginning of Year	<u>1,946,265.75</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,489,076.45</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

	<u>Enterprise Fund</u> <u>Environmental</u> <u>Services</u> <u>Fund</u>
<u>Reconciliation of Operating Income (Loss) to</u>	
<u>Net Cash Provided by Operating Activities</u>	
Operating Income (Loss)	\$ 132,300.76
<u>Adjustments to Reconcile Operating Income to</u>	
<u>Net Cash Provided by Operating Activities</u>	
Depreciation Expense	534,475.07
Change in Assets and Liabilities:	
Receivables	1,884.67
Payables	(10,753.06)
Accrued Wages Payable	(20,795.31)
Estimated Liability for Compensated Absences	6,195.58
Estimated Claim Costs Liability	(1,542.34)
Deferred Inflows - Pensions	(4,178.55)
Deferred Outflows - Contributions	(31,105.78)
Net Pension Liability	53,165.53
Net Other Postemployment Benefit Obligations	41,205.52
Net Cash Provided by Operating Activities	<u>\$ 700,852.09</u>

Statement of Fiduciary Net Position
September 30, 2017

	Private-Purpose Trust Funds	Agency Funds
<u>Assets</u>		
Cash	\$ 519,218.26	\$ 5,879,863.23
Receivables (Note 4)	5,009.35	1,448,947.95
Total Assets	<u>524,227.61</u>	<u>7,328,811.18</u>
<u>Liabilities</u>		
Payables (Note 9)	10,276.80	7,328,811.18
Total Liabilities	<u>10,276.80</u>	<u>\$ 7,328,811.18</u>
<u>Net Position</u>		
Held in Trust for Other Purposes	513,950.81	
Total Net Position	<u>\$ 513,950.81</u>	

The accompanying Notes to the Financial Statements are an integral part of this statement.

***Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2017***

	Private-Purpose Trust Funds
<u>Additions</u>	
Local Taxes and Fees	\$ 149,661.19
Interest Earned	66.61
Miscellaneous	135,615.03
Total Additions	<u>285,342.83</u>
<u>Deductions</u>	
Administrative Expenses	<u>434,645.35</u>
Total Deductions	<u>434,645.35</u>
Change in Net Position	(149,302.52)
Net Position - Beginning of Year	<u>663,253.33</u>
Net Position - End of Year	<u><u>\$ 513,950.81</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Morgan County Commission (the “Commission”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

A. Reporting Entity

The Morgan County Commission is a general purpose local government governed by separately elected commissioners. Generally Accepted Accounting Principles (GAAP) require that the financial statements present the Commission (the primary government) and its component units. Component units are legally separate entities for which a primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Based on the application of the above criteria, there are no component units which should be included as part of the financial reporting entity of the Commission.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Commission. These statements include the financial activities of the primary government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Commission. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Commission and for each function of the Commission’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Commission does not allocate indirect expenses to the various functions. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Fund Financial Statements

The fund financial statements provide information about the Commission's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds in the Other Governmental Funds' column.

The Commission reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund. The Commission primarily received revenues from collections of property taxes and revenues collected by the State of Alabama and shared with the Commission. Also, accounted for in the General Fund is employee health insurance to self-insure the Commission against liability claims.
- ◆ **Gasoline Tax Fund** – This fund is used to account for the expenditures of the seven-cent state gasoline tax revenue for construction, improvement, maintenance, and supervision of highways, bridges, and streets.

The Commission reports the following major enterprise fund:

- ◆ **Environmental Services Fund** – This fund is used to account for the cost of providing solid waste service to county residents.

The Commission reports the following governmental fund types in the Other Governmental Funds' column:

Governmental Fund Types

- ◆ **Special Revenue Funds** – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- ◆ **Debt Service Funds** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and for the accumulation of resources for principal and interest payments maturing in future years.
- ◆ **Capital Projects Funds** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

Notes to the Financial Statements

For the Year Ended September 30, 2017

The Commission reports the following fiduciary fund types:

Fiduciary Fund Types

- ◆ **Private-Purpose Trust Funds** – These funds are used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.
- ◆ **Agency Funds** – These funds are used to report assets held by the Commission in a purely custodial capacity. The Commission collects these assets and transfers them to the proper individual, private organizations, or other government.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are charges between the government's solid waste function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

1. Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the Statement of Cash Flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

State statutes authorize the County Commission to invest in obligations of the U. S. Treasury and securities of federal agencies and certificates of deposit.

2. Receivables

Sales tax receivables are based on the amounts collected within 60 days after year-end. Sales tax receivables consist of taxes that have been paid by consumers in September. This tax is normally remitted to the Commission within the next 60 days.

Millage rates for property taxes are levied at the first regular meeting of the Commission in February of each year. Property is assessed for taxation as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations. Property tax revenue deferred is reported as a deferred inflow of resources.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects, as well as amounts due from the State for taxes and cost-sharing.

Receivables in enterprise funds consist primarily of amounts due from customers who are charged fees for services provided by the Commission.

Receivables from external parties are amounts that are being held in a trustee or agency capacity by the fiduciary funds.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Certain general obligation warrants, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by applicable debt covenants. The debt service funds are used to segregate resources accumulated for debt service payments.

5. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, water and sewer systems, and similar items), are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Depreciation on all assets is provided on the straight-line basis over the assets estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Estimated Useful Life
Buildings	\$ 5,000	20 – 40 Years
Equipment and Furniture	\$ 5,000	5 – 20 Years
Roads	\$250,000	20 – 40 Years
Bridges	\$ 50,000	20 – 40 Years

The majority of governmental activities infrastructure assets are roads and bridges. The Association of County Engineers has determined that due to the climate and materials used in road construction, the base of the roads in the county will not deteriorate and therefore should not be depreciated. The remaining part of the roads, the surface, will deteriorate and will be depreciated. The entire costs of bridges in the county will be depreciated.

6. Deferred Outflows of Resources

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

7. 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 governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Warrants are reported at gross, with related premiums reported separately.

In the fund financial statements, governmental fund types recognize warrant premiums and discounts, as well as warrant issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Notes to the Financial Statements

For the Year Ended September 30, 2017

8. Compensated Absences

The Commission has a standard leave policy for its full-time employees as to sick and annual leave.

Annual Leave

For the first through the fourth year each employee is credited 13 days of annual leave. The fifth to ninth years an employee earns 16.25 days of annual leave per year. The tenth through fourteenth years an employee earns 19.50 days per year. The fifteenth through the nineteenth years an employee earns 22.75 days of annual leave per year. Upon completion of the nineteenth year, an employee is credited with 26 days per year and each year thereafter. Unused annual leave credits may be accumulated and carried over into successive calendar years up to a maximum aggregate of 240 hours. Upon separation or retirement, employees are paid for all accrued annual leave.

Sick Leave

Sick leave benefits with pay are provided for permanent full-time employees in the amount of 9 workdays per fiscal year. Sick leave benefits are accrued by all non-probationary permanent full-time employees at a rate of 2.77 hours per pay period and credited each pay period. Unused sick leave credits may be accumulated and carried over into successive fiscal years by employees. There is no limit on the number of hours an employee may accrue. All unused sick leave is forfeited upon separation and is not compensated to the employee.

Compensatory Leave

Compensatory leave is provided to permanent full-time employees in accordance with the Fair Labor Standards Act and is provided to permanent full-time employees to compensate for periods of work outside of normal working hours for which the employee has not received compensation. According to the Fair Labor Standards Act, employees should be paid for compensatory leave in excess of the maximum hours stipulated. Unused compensatory leave can be carried over 30 days, at the end of which, if not used is paid out at the overtime rate.

9. Deferred Inflows of Resources

Deferred inflows of resources are reported in the government-wide and fund financial statements. Deferred inflows of resources are defined as an acquisition of net position/fund balances by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position/fund balances, similar to liabilities.

Notes to the Financial Statements

For the Year Ended September 30, 2017

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Employees' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

11. Net Position/Fund Balances

Net position is reported on the government-wide and proprietary fund financial statements and is required to be classified for accounting and reporting purposes into the following net position categories:

- ◆ **Net Investment in Capital Assets** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction and improvement of those assets should also be included in this component. Any significant unspent related debt proceeds or deferred inflows of resources attributable to the unspent amount at year-end related to capital assets are not included in this calculation. Debt proceeds or deferred inflows of resources at the end of the reporting period should be included in the same net position amount (restricted, unrestricted) as the unspent amount.
- ◆ **Restricted** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- ◆ **Unrestricted** – The net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Unrestricted net position is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Commission. Assignments and commitments of unrestricted net position should not be reported on the face of the Statement of Net Position.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Fund balance is reported in the fund financial statements. Fund balances of governmental funds are reported in classifications to indicate the level of constraints on the use of the fund balances. Those classifications and associated constraints are as follows:

- ◆ **Nonspendable** – Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- ◆ **Restricted** – Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- ◆ **Committed** – Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Commission, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- ◆ **Assigned** – Assigned fund balances consist of amounts that are intended to be used by the Commission for specific purposes. The Commission authorizes the Commission Chairman or County Administrator to make a determination of the assigned amount of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- ◆ **Unassigned** – Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year-end.

The present statutory basis for county budgeting operations is the County Financial Control Act of 1935 as amended by Act Number 2007-488, Acts of Alabama. According to the terms of the law at some meeting in September of each year, but in any event not later than October 1, the Commission must estimate the anticipated revenues, estimated expenditures and appropriations for the respective amounts that are to be used for each of such purposes. The appropriations must not exceed the total revenues available for appropriation plus any balances on hand. Expenditures may not legally exceed appropriations.

Budgets may be adjusted during the fiscal year when approved by the County Commission. Any changes must be within the revenues and reserves estimated to be available.

Note 3 – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Commission will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 4 – Receivables

On September 30, 2017, receivables for the Commission’s individual major funds, other governmental funds and fiduciary funds in the aggregate are as follows:

Governmental Funds	General Fund	Gasoline Tax Fund	Other Governmental Funds	Total Governmental Funds
<u>Receivables:</u>				
Intergovernmental	\$720,080.94	\$208,067.80	\$378,978.49	\$1,307,127.23
Other Receivables	147,509.16	774.20	67,180.67	215,464.03
Total Receivables	<u>\$867,590.10</u>	<u>\$208,842.00</u>	<u>\$446,159.16</u>	<u>\$1,522,591.26</u>

Proprietary Fund	Environmental Services Fund
<u>Receivables:</u>	
Accounts Receivable	<u>\$215,265.42</u>
Total Receivables	<u>\$215,265.42</u>

Fiduciary Funds	Private-Purpose Trust Funds	Agency Funds
<u>Receivables:</u>		
Intergovernmental	<u>\$5,009.35</u>	<u>\$1,448,947.95</u>
Total Receivables	<u>\$5,009.35</u>	<u>\$1,448,947.95</u>

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	Balance 10/01/2016	Additions/ Reclassifications (*)	Deletions/ Reclassifications (*)	Balance 09/30/2017
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,092,699.11	\$	\$	\$ 3,092,699.11
Infrastructure in Progress	1,288,784.88	3,375,675.19	(2,285,240.29)	2,379,219.78
Construction in Progress	10,552,076.35	1,322,966.92	(11,554,174.49)	320,868.78
Total Capital Assets, Not Being Depreciated	<u>14,933,560.34</u>	<u>4,698,642.11</u>	<u>(13,839,414.78)</u>	<u>5,792,787.67</u>
Capital Assets Being Depreciated:				
Infrastructure	25,419,942.06	2,285,240.29		27,705,182.35
Buildings	39,159,147.62	11,416,952.68		50,576,100.30
Improvements Other Than Buildings	3,352,492.93	187,379.38		3,539,872.31
Equipment and Furniture	15,695,371.84	926,215.45	(361,998.81)	16,259,588.48
Assets Under Capital Lease	1,004,252.29	367,911.80	(401,267.00)	970,897.09
Total Capital Assets Being Depreciated	<u>84,631,206.74</u>	<u>15,183,699.60</u>	<u>(763,265.81)</u>	<u>99,051,640.53</u>
Less Accumulated Depreciation for:				
Infrastructure	(6,071,713.45)	(583,932.76)		(6,655,646.21)
Buildings	(15,031,954.97)	(976,480.17)		(16,008,435.14)
Improvements Other Than Buildings	(1,237,167.52)	(115,549.79)		(1,352,717.31)
Equipment and Furniture	(12,541,710.28)	(1,224,938.74)	320,916.81	(13,445,732.21)
Assets Under Capital Lease	(591,325.79)	(86,256.23)	323,622.49	(353,959.53)
Total Accumulated Depreciation	<u>(35,473,872.01)</u>	<u>(2,987,157.69)</u>	<u>644,539.30</u>	<u>(37,816,490.40)</u>
Total Capital Assets Being Depreciated, Net	<u>49,157,334.73</u>	<u>12,196,541.91</u>	<u>(118,726.51)</u>	<u>61,235,150.13</u>
Total Governmental Activities	<u>\$ 64,090,895.07</u>	<u>\$ 16,895,184.02</u>	<u>\$(13,958,141.29)</u>	<u>\$ 67,027,937.80</u>
(*) Reclassifications from Infrastructure in Progress to Infrastructure of \$2,285,240.29, Construction in Progress to Buildings of \$11,402,952.69 and Construction in Progress to Improvements Other Than Buildings of \$151,221.80 are included in the Addition and Deletions columns. Also, reclassifications from Assets under Capital Lease of \$401,267.00 and related depreciation of \$323,622.49 to Equipment and Furniture are included in the Addition and Deletions columns.				

Notes to the Financial Statements
For the Year Ended September 30, 2017

	Balance 10/01/2016	Additions/ Reclassifications (*)	Deletions/ Reclassifications (*)	Balance 09/30/2017
Business-Type Activities:				
Capital Assets Being Depreciated:				
Buildings	\$ 1,552,128.71	\$	\$	\$ 1,552,128.71
Improvements Other Than Buildings	19,353.00			19,353.00
Equipment and Furniture	1,779,316.71	2,325,791.63	(242,851.00)	3,862,257.34
Equipment Under Capital Lease	1,590,728.00		(1,590,728.00)	
Total Capital Assets Being Depreciated	4,941,526.42	2,325,791.63	(1,833,579.00)	5,433,739.05
Less Accumulated Depreciation for:				
Buildings	(216,999.46)	(42,385.06)		(259,384.52)
Improvements Other Than Buildings	(2,419.16)	(967.65)		(3,386.81)
Equipment and Furniture	(785,171.50)	(1,206,950.02)	117,065.50	(1,875,056.02)
Equipment Under Capital Lease	(715,827.66)		715,827.66	
Total Accumulated Depreciation	(1,720,417.78)	(1,250,302.73)	832,893.16	(2,137,827.35)
Total Capital Assets Being Depreciated, Net	3,221,108.64	1,075,488.90	(1,000,685.84)	3,295,911.70
Total Business-Type Activities Capital Assets, Net	\$ 3,221,108.64	\$ 1,075,488.90	\$(1,000,685.84)	\$ 3,295,911.70
(*) Reclassifications from Equipment Under Capital Lease of \$1,590,728.00 and related Depreciation of \$715,827.66 to Equipment and Furniture are included in the Additions and Deletions columns.				

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

	Current Year Depreciation Expense
Governmental Activities:	
General Government	\$ 446,135.89
Public Safety	841,309.15
Highways and Roads	1,023,917.71
Sanitation	7,494.60
Health	7,509.20
Welfare	157,316.02
Culture and Recreations	179,852.63
Total Depreciation Expense – Governmental Activities	\$2,663,535.20

	Current Year Depreciation Expense
Business-Type Activities:	
Sanitation	\$534,475.07
Total Depreciation Expense – Business-Type Activities	\$534,475.07

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 6 – Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Description

The Employees' Retirement System of Alabama (ERS), an agency multiple-employer plan (the "Plan"), was established October 1, 1945 under the provisions of Act Number 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 36-27-2, grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex-officio.
- 2) The State Treasurer, ex-officio.
- 3) The State Personnel Director, ex-officio.
- 4) The State Director of Finance, ex-officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex-officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975*, Section 36-27-6.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

Notes to the Financial Statements

For the Year Ended September 30, 2017

The ERS serves approximately 875 local participating employers. These participating employers include 294 cities, 65 counties, and 516 other public entities. The ERS membership includes approximately 85,874 participants. As of September 30, 2016, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,007
Terminated employees entitled to but not yet receiving benefits	1,155
Terminated employees not entitled to a benefit	6,654
Active Members	55,058
Total	85,874

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contribution rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2017, the Commission's active employee contribution rate was 5.29% of covered employee payroll, and the Commission's average contribution rate to fund the normal and accrued liability costs was 7.10% of covered employee payroll.

Notes to the Financial Statements
For the Year Ended September 30, 2017

The Commission's contractually required contribution rate for the year ended September 30, 2017, was 7.97% of pensionable pay for Tier 1 employees, and 5.40% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Commission were \$959,460.68 for the year ended September 30, 2017.

B. Net Pension Liability

The Commission's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, rolled forward to September 30, 2016, using standard roll-forward techniques as shown in the following table:

	Expected	Actual – 2015 Valuation Assumptions	Actual – 2016 Valuation Assumptions
Total Pension Liability as of September 30, 2015 (a)	\$41,752,556	\$42,326,547	\$43,591,896
Discount rate (b)	8.00%	8.00%	7.75%
Entry Age Normal Cost for October 1, 2015 – September 30, 2016 (c)	1,173,409	1,173,409	1,150,803
Transfers Among Employers: (d)		68,968	68,968
Actual Benefit Payments and Refunds for October 1, 2015 – September 30, 2016 (e)	<u>(2,475,448)</u>	<u>(2,475,448)</u>	<u>(2,475,448)</u>
Total Pension Liability as of September 30, 2016 = [(a) x (1+(b))] + (c)+(d)+ [(e) x (1+0.5*(b))]	<u>\$43,691,704</u>	<u>\$44,380,582</u>	<u>\$45,618,667</u>
Difference between Expected and Actual (g)		\$ 688,878	
Less Liability Transferred for Immediate Recognition (h)		<u>68,968</u>	
Experience (Gain)/Loss + (g) – (h)		<u>\$ 619,910</u>	
Difference between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			<u>\$ 1,238,085</u>

Notes to the Financial Statements
For the Year Ended September 30, 2017

Actuarial Assumptions

The total pension liability as of September 30, 2016, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2015. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary Increases	3.25 - 5.00%
Investment Rate of Return (*)	7.75%
(*) Net of pension plan investment expense	

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2015, valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Notes to the Financial Statements
For the Year Ended September 30, 2017

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	5.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Real Estate	10.00%	10.1%
Alternatives	10.00%	7.50%
Cash	3.00%	1.50%
Total	100.00%	

(*) Includes assumed rate of inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to the Financial Statements
For the Year Ended September 30, 2017

C. Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at September 30, 2015	\$41,752,556	\$31,185,244	\$10,567,312
Changes for the Year:			
Service Cost	1,173,409		1,173,409
Interest	3,241,187		3,241,187
Changes in Assumptions	1,238,085		1,238,085
Differences Between Expected and Actual Experience	619,910		619,910
Contributions – Employer		1,048,049	(1,048,049)
Contributions – Employee		737,643	(737,643)
Net Investment Income		3,144,335	(3,144,335)
Benefit Payments, including Refunds of Employee Contributions	(2,475,448)	(2,475,448)	
Transfers among Employers	68,968	68,968	
Net Changes	3,866,111	(2,523,547)	1,342,564
Balances at September 30, 2016	\$45,618,667	\$33,708,791	\$11,909,876

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Commission’s net pension liability calculated using the discount rate of 7.75%, as well as what the Commission’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Commission’s net pension liability	\$17,272,961	\$11,909,876	\$7,396,818

Notes to the Financial Statements

For the Year Ended September 30, 2017

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement Number 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated September 18, 2017 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the Commission recognized pension expense of \$1,448,552.00. At September 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 524,539.00	\$453,729.00
Changes in Assumptions	1,047,610.00	
Net difference between projected and actual earnings on pension plan investments	277,892.00	
Employer contributions subsequent to the measurement date	959,460.68	
Total	<u>\$2,809,501.68</u>	<u>\$453,729.00</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year Ending:	
September 30, 2018	\$241,587
2019	\$241,587
2020	\$470,570
2021	\$ 45,456
2022	\$254,193
Thereafter	\$142,919

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Morgan County Commission provides a single-employer defined benefit postemployment healthcare plan administered by Blue Cross and Blue Shield of Alabama. The plan provides medical, dental, and prescription drug insurance benefits to eligible retirees and their spouses. The *Code of Alabama 1975*, Section 11-91-1 through 11-91-8, gives authority to the Commission to establish and amend benefit provisions. The plan does not issue a stand-alone financial report.

B. Funding Policy

The Commission’s contributions were on a pay-as-you-go basis as of September 30, 2017. The Commission does not anticipate setting up a trust fund within the next two years to fund its postemployment medical, dental, and prescription drug plans.

The Commission contributes 75% of the cost of current-year premiums for eligible retiree’s medical insurance premiums for family coverage and 57% for single coverage. The Commission determines its contribution amounts annually during the budget hearings. For fiscal year 2017, the Commission contributed \$178,781 to cover approximately twenty-seven participants. Plan members receiving benefits contribute \$300.00 for family coverage cost and \$200.00 for single coverage costs. For fiscal year 2017, total retired member contributions were \$83,200.

C. Annual OPEB Cost

For fiscal year 2017, the Commission’s annual other postemployment benefit (OPEB) cost (expense) for medical, dental, and prescription drug insurance was \$954,257. The Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2017	\$954,257	18.74%	\$7,056,493
09/30/2016	\$945,160	14.34%	\$6,281,017
09/30/2015	\$945,160	13.17%	\$5,471,377

Notes to the Financial Statements
For the Year Ended September 30, 2017

D. Funded Status and Funding Progress

The funding status of the plan as of September 30, 2016, was as follows:

Actuarial Accrued Liability (AAL)	\$ 8,585,634
Actuarial Value of Plan Assets	\$0.00
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 8,585,634</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll (Active Plan Members)	\$13,598,879
UAAL as a Percentage of Covered Payroll	63.13%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used was the Projected Unit Credit Actuarial Cost Method. The actuarial assumptions included a 4% investment rate of return assumption and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements to an ultimate rate of 5.0% after six years. It was assumed that 90% of future retirees would elect medical, drug, and dental insurance coverage. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open period. The unfunded actuarial accrued liability (UAAL) is being amortized over thirty years.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 9 – Payables

On September 30, 2017, payables for the Commission’s individual major funds and other governmental and fiduciary funds in the aggregate are as follows:

	Accounts Payable	Due to Other Governments	Withholdings and Benefits	Total
<u>Governmental Funds:</u>				
General Fund	\$ 548,030.80	\$ 111,441.20	\$	\$ 659,472.00
Gasoline Tax Fund	25,813.00			25,813.00
Other Governmental Funds	288,618.96	46,705.15		335,324.11
Total Governmental Funds	<u>862,462.76</u>	<u>158,146.35</u>		<u>1,020,609.11</u>
<u>Business-Type Activities:</u>				
Environmental Services Fund	52,045.19			52,045.19
Total Business-Type Activities	<u>52,045.19</u>			<u>52,045.19</u>
<u>Fiduciary Funds:</u>				
Private-Purpose Trust	9,886.25	390.55		10,276.80
Agency	4,339,568.66	2,011,259.20	977,983.32	7,328,811.18
Total Fiduciary Funds	<u>\$4,349,454.91</u>	<u>\$2,011,649.75</u>	<u>\$977,983.32</u>	<u>\$7,339,087.98</u>

Note 10 – Lease Obligations

Capital Leases

The Commission is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$970,897.09 for governmental activities at September 30, 2017. If the Commission completes the lease payments according to the schedules below, which is the stated intent of the Commission, ownership of the leased equipment will pass to the Commission. The lease purchase contracts give the Commission the right to cancel the lease with 30 days’ written notice and payment of a pro rata share of the current year’s lease payments.

Notes to the Financial Statements
For the Year Ended September 30, 2017

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30.

Fiscal Year Ending	Governmental Activities
September 30, 2018	\$249,876.47
2019	201,655.96
2020	160,179.76
2021	98,189.74
Total Minimum Lease Payments	709,901.93
Less: Amount Representing Interest	(39,196.13)
Present Value of Net Minimum Lease Payments	<u>\$670,705.80</u>

Note 11 – Long-Term Debt

In June 2010, General Obligation Warrants were issued with variable interest rates of 2.0 percent to 3.25 percent to refund on a current basis the Outstanding Series 2000 General Obligation Warrants and the 2000 Taxable General Obligation Warrants and to provide funds for various capital projects.

In June 2012, General Obligation Warrants were issued with variable interest rates of 2.0 percent to 2.5 percent to refund the Outstanding Series 2003 General Obligation Warrants.

In March 2013, General Obligation Warrants were issued with variable interest rates of 0.6 percent to 2.6 percent to refund on a current basis the Outstanding Series 2004 General Obligation Warrants.

In January 2014, General Obligation Warrants were issued with variable interest rates of 1.75 percent to 4 percent to fund public safety and public transportation projects.

In 2015, General Obligation Warrants were issued with variable interest rates of 2.25 percent to 4 percent to fund a public safety project.

In 2017, a zero-interest loan was made to fund lighting at Brindlee Mountain Park.

Notes to the Financial Statements
For the Year Ended September 30, 2017

The following is a summary of long-term debt transactions for the Commission for the year ended September 30, 2017:

	Debt Outstanding 10/01/2016	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2017	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable:					
General Obligation Warrants, Series 2010	\$ 1,340,000.00	\$	\$ (320,000.00)	\$ 1,020,000.00	\$ 330,000.00
General Obligation Warrants, Series 2012	6,985,000.00		(800,000.00)	6,185,000.00	815,000.00
General Obligation Warrants, Series 2013A	9,460,000.00		(155,000.00)	9,305,000.00	155,000.00
General Obligation Warrants, Series 2013B	2,190,000.00		(30,000.00)	2,160,000.00	30,000.00
General Obligation Warrants, Series 2014	7,400,000.00		(420,000.00)	6,980,000.00	430,000.00
General Obligation Warrants, Series 2015	3,060,000.00			3,060,000.00	
Total Warrants Payable	30,435,000.00		(1,725,000.00)	28,710,000.00	1,760,000.00
Loans Payable		165,681.35	(52,051.52)	113,629.83	21,538.56
Unamortized Premium	187,404.47		(13,386.03)	174,018.44	13,386.03
Capital Leases Payable	773,379.06	94,610.00	(197,283.26)	670,705.80	231,222.29
Net Pension Liability	10,190,103.22	1,289,398.47		11,479,501.69	
Estimated Liability for Compensated Absences	1,106,714.27		(8,611.85)	1,098,102.42	349,928.58
Net OPEB Obligation	6,033,316.52	734,270.40		6,767,586.92	
Total Governmental Activities Long-Term Liabilities	48,725,917.54	2,283,960.22	(1,996,332.66)	49,013,545.10	2,376,075.46
Business-Type Activities:					
Capital Leases Payable	514,906.13		(514,906.13)		
Net Pension Liability	377,208.78	53,165.53		430,374.31	
Estimated Liability for Compensated Absences	33,823.63	6,195.58		40,019.21	10,009.48
Net OPEB Obligation	247,700.07	41,205.52		288,905.59	
Total Business-Type Activities Long-Term Liabilities	\$ 1,173,638.61	\$ 100,566.63	\$ (514,906.13)	\$ 759,299.11	\$ 10,009.48

Payments on the warrants payable that pertain to the Commission's governmental activities are made by the General Fund, capital projects funds, Gasoline Tax Fund, RRR Fund and debt service funds.

The capital lease liability for governmental activities will be liquidated by the Gasoline Tax Fund and by the General Fund.

The compensated absences liability attributable to the governmental activities will be liquidated by several of the Commission's governmental funds. The majority of the liability will be liquidated through the Commission's General Fund and Gasoline Tax Fund. The remainder will be liquidated by other governmental funds.

Notes to the Financial Statements
For the Year Ended September 30, 2017

The following is a schedule of debt service requirements to maturity:

Fiscal Year Ending	Series 2010		Series 2012	
	General Obligation Warrants Principal	Interest	General Obligation Warrants Principal	Interest
September 30, 2018	\$ 330,000.00	\$27,035.00	\$ 815,000.00	\$137,587.50
2019	340,000.00	16,730.00	835,000.00	121,287.50
2020	350,000.00	5,688.00	850,000.00	104,587.50
2021			1,200,000.00	87,587.50
2022			1,230,000.00	60,587.50
2023-2027			1,255,000.00	31,375.00
2028-2032				
2033				
Totals	\$1,020,000.00	\$49,453.00	\$6,185,000.00	\$534,012.50

Fiscal Year Ending	Series 2015		Loans Payable
	General Obligation Warrants Principal	Interest	
September 30, 2018	\$	\$ 109,302.50	\$ 21,538.56
2019		109,302.50	21,538.56
2020		109,302.50	21,538.56
2021		109,302.50	21,538.56
2022		109,302.50	21,538.56
2023-2027	350,000.00	538,637.50	5,937.03
2028-2032	2,710,000.00	286,805.00	
2033			
Totals	\$3,060,000.00	\$1,371,955.00	\$113,629.83

Premium on Bond Issuance

The Commission has a premium in connection with the issuance of its 2015 General Obligation Warrants. The premium is being amortized using the straight-line method. The premium for the 2015 Warrants will be amortized over the life of the issue which will be through April 1, 2030.

	Premium
Premium Issuance	\$200,790.50
Amount Amortized in Prior Years	(13,386.03)
Balance	187,404.47
Current Amount Amortized	(13,386.03)
Balance of Premium	\$174,018.44

Notes to the Financial Statements
For the Year Ended September 30, 2017

Series 2013A		Series 2013B		Series 2014	
General Obligation Warrants		General Obligation Warrants		General Obligation Warrants	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 155,000.00	\$ 224,440.00	\$ 30,000.00	\$ 67,308.76	\$ 430,000.00	\$ 211,115.00
160,000.00	222,347.50	30,000.00	66,753.76	445,000.00	198,215.00
160,000.00	220,187.50	145,000.00	66,198.76	460,000.00	184,865.00
165,000.00	217,387.50	150,000.00	65,643.76	465,000.00	176,815.00
165,000.00	214,500.00	155,000.00	58,268.76	475,000.00	166,585.00
5,110,000.00	919,480.00	1,650,000.00	101,850.00	2,580,000.00	632,660.00
3,390,000.00	134,580.00			1,790,000.00	248,420.50
				335,000.00	13,400.00
\$9,305,000.00	\$2,152,922.50	\$2,160,000.00	\$420,733.80	\$6,980,000.00	\$1,832,077.50

Capital Leases Contracts Payable		Total Principal and Interest Requirements
Principal	Interest	
\$231,222.29	\$18,654.18	\$ 2,807,648.79
189,585.85	12,070.11	2,767,275.78
153,838.42	6,341.34	2,836,992.58
96,059.24	2,130.50	2,752,839.56
		2,655,782.32
		13,174,939.53
		8,559,807.50
		348,400.00
\$670,705.80	\$39,196.13	\$35,903,686.06

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 12 – Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has general liability insurance through a commercial carrier. The Commission pays an annual premium based on the Commission’s individual claims experience. Coverage is provided up to \$1,000,000.00 per claim for a maximum total coverage of \$2,000,000.00.

The Commission has workers’ compensation insurance through the Association of County Commissions of Alabama (ACCA) Workers’ Compensation Self Insurance Fund, a public entity risk pool. The premium level for the fund is calculated to adequately cover the anticipated losses and expenses of the Fund. Fund rates are calculated for each job class based on the current NCCI Alabama loss costs and a loss cost modifier to meet the required premiums of the Fund. Member premiums are then calculated on a rate per \$100 of estimated remuneration for each job class, which is adjusted by an experience modifier for the individual county. The Commission may qualify for additional discounts based on losses and premium size. Pool participants are eligible to receive refunds of unused premiums and the related investment earnings. The Commission purchases commercial insurance for its other risks of loss, including property and casualty insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Commission is self-insured with regard to employee health insurance. The Commission purchases insurance for claims in excess of the aggregate stop loss basis. The aggregate stop loss basis is determined annually based on the Commission’s claim experience. An estimate of the claims liability is reported in the governmental funds and the proprietary fund. The entire long-term liability is included in the government-wide financial statements. These liabilities are based on estimates utilizing past experience.

The schedule below presents the changes in claims liabilities for the past three years for the self-insured activity of employee health insurance.

Fiscal Years	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2014-2015	\$107,853.14	\$3,669,173.73	\$3,605,140.00	\$171,886.87
2015-2016	\$171,886.87	\$3,810,640.33	\$3,816,839.82	\$165,687.38
2016-2017	\$165,687.38	\$3,875,112.05	\$3,922,776.30	\$118,023.13

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 13 – Interfund Transactions

Interfund Receivables/Payables

Interfund receivables/payables at September 30, 2017, were as follows:

	Interfund Receivables General Fund	Totals
Interfund Payables:		
Other Governmental Funds	\$22,226.66	\$22,226.66
Totals	\$22,226.66	\$22,226.66

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2017, were as follows:

	Operating Transfers Out			Totals
	General Fund	Gasoline Tax Fund	Other Governmental Funds	
Operating Transfers In:				
General Fund	\$	\$	\$77,472.59	\$ 77,472.59
Gasoline Tax Fund	1,709,269.00			1,709,269.00
Other Governmental Funds	2,064,804.00	72,190.00		2,136,994.00
Totals	\$3,774,073.00	\$72,190.00	\$77,472.59	\$3,923,735.59

The Commission typically used transfers to fund ongoing operating subsidies and to transfer the portion from the General Fund to the debt service funds to service current-year debt requirements.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 14 – Related Organizations

A majority of the members of the boards of the agencies listed below are appointed by the Morgan County Commission. The Commission, however, is not financially accountable, because it does not impose its will nor does it have a financial benefit or burden relationship with the agencies. Additionally, the agencies are not considered part of the Commission’s financial reporting entity. The agencies presented below are considered related organizations of the County Commission.

Related Organizations
Decatur-Morgan County Port Authority Northeast Morgan County Water and Fire Protection Authority West Morgan East Lawrence Water and Sewer Authority State Products Mart Authority Public Parks and Recreation Board Morgan County Commercial Development District

Required Supplementary Information

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Schedule of Changes in the Net Pension Liability

For the Year Ended September 30, 2017

	2016	2015	2014
<u>Total pension liability</u>			
Service cost	\$ 1,173,409.00	\$ 1,122,621.00	\$ 1,131,991.00
Interest	3,241,187.00	3,153,595.00	3,019,588.00
Changes of Assumptions	1,238,085.00		
Differences between expected and actual experience	619,910.00	(664,767.00)	
Benefit payments, including refunds of employee contributions	(2,475,448.00)	(2,557,656.00)	(2,395,328.00)
Transfers among employers	68,968.00		
Net change in total pension liability	3,866,111.00	1,053,793.00	1,756,251.00
Total pension liability - beginning	41,752,556.00	40,698,763.00	38,942,512.00
Total pension liability - ending (a)	<u>\$ 45,618,667.00</u>	<u>\$ 41,752,556.00</u>	<u>\$ 40,698,763.00</u>
<u>Plan fiduciary net position</u>			
Contributions - employer	\$ 1,048,049.00	\$ 1,063,921.00	\$ 1,021,795.00
Contributions - employee	737,643.00	725,290.00	692,420.00
Net investment income	3,144,335.00	370,100.00	3,435,573.00
Benefit payments, including refunds of employee contributions	(2,475,448.00)	(2,557,656.00)	(2,395,328.00)
Other (Transfers among employers)	68,968.00	7,128.00	(303,456.00)
Net change in plan fiduciary net position	2,523,547.00	(391,217.00)	2,451,004.00
Plan fiduciary net positions - beginning	31,185,244.00	31,576,461.00	29,125,457.00
Plan fiduciary net positions - ending (b)	<u>\$ 33,708,791.00</u>	<u>\$ 31,185,244.00</u>	<u>\$ 31,576,461.00</u>
Commission's net pension liability - ending (a) - (b)	\$ 11,909,876.00	\$ 10,567,312.00	\$ 9,122,302.00
Plan fiduciary net position as a percentage of the total pension liability	73.89%	74.69%	77.59%
Covered payroll (*)	\$ 13,765,092	\$ 13,896,025	\$ 13,153,379
Commission's net pension liability as a percentage of covered payroll	86.52%	76.05%	69.35%

(*) Employer's covered payroll during the measurement period is the total covered payroll. For fiscal year 2017, the measurement period is October 1, 2015 through September 30, 2016. GASB issued a statement "Pension Issues" in March 2016 to redefine covered payroll for fiscal year 2017.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***Schedule of the Employer's Contributions
For the Year Ended September 30, 2017***

	2017	2016
Actuarially determined contribution (*)	\$ 959,460.68	\$ 101,143.29
Contributions in relation to the actuarially determined contribution	<u>\$ 2,944,208.00</u>	<u>\$ 101,143.29</u>
Contribution deficiency (excess)	\$	\$
Covered payroll (**)	\$ 13,516,278.86	\$ 13,765,092.40
Contributions as a percentage of covered payroll	7.10%	8.00%

(*) The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of the Employer's Contributions is based on the 12 month period of the underlying financial statement.

(**) Employer's covered payroll for fiscal year 2017 is the total covered payroll for the 12 month period of the underlying financial statement.

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2017 were based on the September 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Five year smoothed market
Inflation	3%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	8%, net of pension plan investment expense, including inflation

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.



<u>2015</u>	<u>2014</u>
\$ 1,116,190.98	\$ 1,021,795.00
<u>\$ 1,116,190.98</u>	<u>\$ 1,021,795.00</u>
\$	\$
\$ 13,896,025.02	\$ 13,153,379.37
8.03%	7.77%

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2017***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
Taxes	\$ 13,265,720.00	\$ 13,368,720.00	\$ 13,500,361.60
Licenses and Permits	210,500.00	210,500.00	220,220.91
Intergovernmental	1,228,260.00	2,393,785.00	2,437,654.52
Charges for Services	4,865,300.00	4,868,332.00	5,444,783.39
Miscellaneous	728,100.00	787,851.00	570,840.71
Total Revenues	<u>20,297,880.00</u>	<u>21,629,188.00</u>	<u>22,173,861.13</u>
Expenditures			
Current:			
General Government	7,233,233.00	7,603,994.00	7,365,490.74
Public Safety	10,877,034.00	11,677,518.00	11,895,806.65
Highways and Roads			
Sanitation			
Health	438,874.00	441,648.00	413,463.08
Welfare	128,731.00	123,747.00	127,506.24
Culture and Recreation	108,000.00	132,658.03	132,658.03
Education	45,000.00	45,000.00	45,000.00
Capital Outlay	431,662.00	182,230.33	182,230.33
Debt Service:			
Principal	68,740.00	99,913.00	99,913.04
Interest	2,555.00	20,477.00	20,476.31
Total Expenditures	<u>19,333,829.00</u>	<u>20,327,185.36</u>	<u>20,282,544.42</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>964,051.00</u>	<u>1,302,002.64</u>	<u>1,891,316.71</u>
Other Financing Sources (Uses)			
Transfers In	1,310,000.00	1,345,905.00	1,345,905.56
Sale of Capital Assets	15,000.00	15,000.00	10,094.00
Transfers Out	(2,719,137.00)	(2,871,637.00)	(2,810,583.07)
Other Financing Sources (Uses)	20,000.00	20,000.00	
Total Other Financing Sources (Uses)	<u>(1,374,137.00)</u>	<u>(1,490,732.00)</u>	<u>(1,454,583.51)</u>
Net Change in Fund Balances	(410,086.00)	(188,729.36)	436,733.20
Fund Balances - Beginning of Year	<u>1,967,443.45</u>	<u>1,967,443.45</u>	<u>1,967,443.45</u>
Fund Balances - End of Year	<u>\$ 1,557,357.45</u>	<u>\$ 1,778,714.09</u>	<u>\$ 2,404,176.65</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
(1)	\$ 5,354,194.86	\$ 18,854,556.46
		220,220.91
(1)	327,395.94	2,765,050.46
(1)	146,142.29	5,590,925.68
(1)	162,590.97	733,431.68
	<u>5,990,324.06</u>	<u>28,164,185.19</u>
(2)	(48,013.36)	7,413,504.10
(2)	(10,540.31)	11,906,346.96
(2)	(1,044,763.90)	1,044,763.90
(2)	(185,940.84)	185,940.84
		413,463.08
(2)	(317,556.95)	445,063.19
(2)	(847,291.71)	979,949.74
	(139,996.28)	184,996.28
(2)	(604,844.93)	787,075.26
(2)	(104,377.21)	204,290.25
(2)	(7,404.67)	27,880.98
	<u>(3,310,730.16)</u>	<u>23,593,274.58</u>
	<u>2,679,593.90</u>	<u>4,570,910.61</u>
(3)	(1,268,432.97)	77,472.59
	78,100.00	88,194.00
(3)	(963,489.93)	(3,774,073.00)
	260,291.35	260,291.35
	<u>(1,893,531.55)</u>	<u>(3,348,115.06)</u>
	786,062.35	1,222,795.55
(4)	<u>3,471,436.69</u>	<u>5,438,880.14</u>
	<u>\$ 4,257,499.04</u>	<u>\$ 6,661,675.69</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2017***

Explanation of differences between Actual Amounts on Budgetary Basis and Actual Amounts GAAP Basis:

Some amounts are combined with the General Fund for reporting purposes, but are budgeted separately.

(1) Revenues		
Park and Recreation Fund	\$	210,308.29
Flood Insurance Permit Fund		13.82
Public Buildings, Roads and Bridges Fund		5,487,227.84
Jack Maddox Industrial Park		58.44
Rural Morgan County Industrial Development Fund		1,262.45
Industrial Fund		78.21
Commission on Aging		72,972.94
Disaster Relief Fund		2.65
Recycling Fund		190,602.60
Soil and Water Conservation		<u>27,796.82</u>
(2) Expenditures		
Park and Recreation Fund	\$	1,116,604.36
Public Buildings, Roads and Bridges Fund		1,665,764.33
Commission on Aging		314,265.05
Recycling Fund		185,940.84
Soil and Water Conservation		<u>28,155.58</u>
(3) Other Financing Sources/(Uses), Net		
Park and Recreation Fund	\$	930,739.75
Public Buildings, Roads and Bridges Fund		(3,255,985.40)
Rural Morgan County Industrial Development Fund		181,714.10
Commission on Aging		<u>250,000.00</u>

Net Change in Fund Balance - Budget to GAAP

(4) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balance because of the cumulative effect of transactions such as those described above. Encumbrances outstanding at year-end are reported only as reservations of fund balances and do not constitute expenditures or liabilities.

\$ 5,990,324.06

(3,310,730.16)

(1,893,531.55)

\$ 786,062.35

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gasoline Tax Fund
For the Year Ended September 30, 2017***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
Intergovernmental	\$ 1,806,610.00	\$ 1,806,610.00	\$ 1,999,404.35
Miscellaneous	17,300.00	17,300.00	13,432.17
Total Revenues	<u>1,823,910.00</u>	<u>1,823,910.00</u>	<u>2,012,836.52</u>
Expenditures			
Current:			
Highways and Roads	3,617,036.00	3,617,036.00	3,345,116.36
Capital Outlay			91,308.00
Debt Service:			
Principal Retirement	45,045.00	45,045.00	45,044.53
Interest and Fiscal Charges	2,470.00	2,470.00	2,470.51
Total Expenditures	<u>3,664,551.00</u>	<u>3,664,551.00</u>	<u>3,483,939.40</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,840,641.00)</u>	<u>(1,840,641.00)</u>	<u>(1,471,102.88)</u>
Other Financing Sources (Uses)			
Transfers In	1,839,469.00	1,839,469.00	1,839,469.00
Sale of Capital Assets			15,075.00
Transfers Out	(72,200.00)	(72,200.00)	(72,190.00)
Total Other Financing Sources (Uses)	<u>1,767,269.00</u>	<u>1,767,269.00</u>	<u>1,782,354.00</u>
Net Change in Fund Balances	(73,372.00)	(73,372.00)	311,251.12
Fund Balances - Beginning of Year	<u>997,784.00</u>	<u>997,784.00</u>	<u>997,784.00</u>
Fund Balances - End of Year	<u>\$ 924,412.00</u>	<u>\$ 924,412.00</u>	<u>\$ 1,309,035.12</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
(1)	\$ 131,659.27	\$ 2,131,063.62
(1)	49.79	13,481.96
	<u>131,709.06</u>	<u>2,144,545.58</u>
		3,345,116.36
		91,308.00
		45,044.53
		<u>2,470.51</u>
		<u>3,483,939.40</u>
	<u>131,709.06</u>	<u>(1,339,393.82)</u>
(2)	(130,200.00)	1,709,269.00
		15,075.00
		<u>(72,190.00)</u>
	<u>(130,200.00)</u>	<u>1,652,154.00</u>
	1,509.06	312,760.18
(3)	<u>39,330.54</u>	<u>1,037,114.54</u>
	<u>\$ 40,839.60</u>	<u>\$ 1,349,874.72</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gasoline Tax Fund
For the Year Ended September 30, 2017***

**Explanation of Differences between Actual Amounts on
Budgetary Basis and Actual Amounts GAAP Basis:**

Some amounts are combined with the Gasoline Tax Fund for reporting purposes, but are budgeted separately.

- (1) Revenues
 Severed Minerals Tax Fund

- (2) Other Financing Sources/(Uses)
 Severed Minerals Tax Fund

Net Change in Fund Balance - Budget to GAAP

- (3) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balance because of the cumulative effect of transactions such as those described above. Encumbrances outstanding at year-end are reported only as reservations of fund balances and do not constitute expenditures or liabilities.

\$ 131,709.06

(130,200.00)

\$ 1,509.06

***Schedule of Funding Progress
Other Postemployment Benefits
For the Year Ended September 30, 2017***

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
10/01/2015	\$0	\$8,585,634	\$8,585,634	0%	\$13,598,879	63.13%
10/01/2013	\$0	\$8,164,661	\$8,164,661	0%	\$13,685,670	59.66%
10/01/2011	\$0	\$8,749,512	\$8,749,512	0%	\$13,316,587	65.70%

Additional Information

Commission Members and Administrative Personnel
October 1, 2016 through September 30, 2017

<u>Commission Members</u>		<u>Term Expires</u>
Hon. Ray Long	Chairman	November 2022
Hon. Jeff Clark	Member	November 2018
Hon. Don Stisher	Member	November 2020
Hon. Greg Abercrombie	Member	November 2020
Hon. Randy Vest	Member	November 2018
<u>Administrative Personnel</u>		
Belinda G. Ealey	Administrator	Indefinite

***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***

Independent Auditor's Report

Members of the Morgan County Commission and County Administrator
Decatur, Alabama

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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Morgan County Commission, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Morgan County Commission's basic financial statements, and have issued our report thereon dated January 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Morgan County Commission'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Morgan County Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morgan County Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Report on Internal Control Over Financial Reporting and on
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

January 28, 2019