

**FINANCIAL STATEMENTS AND
AUDITORS' REPORT**

**MORGAN COUNTY ECONOMIC
DEVELOPMENT BOARD, INC.**

June 30, 2015

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Independent Auditors' Report

To The Board of Directors
Morgan County Economic Development Board, Inc.
Wartburg, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Morgan County Economic Development Board, Inc. (a nonprofit Organization), which comprise the statement of financial position as of June 30, 2015, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements

Management's Responsibility for the Financial Statements

Management 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 an opinion 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 of material misstatement.

An audit includes 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 the 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 over presentation of the financial statements.



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morgan County Economic Development Board, Inc. as of June 30, 2015, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2016, on our consideration of Morgan County Economic Development Board, Inc.'s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Morgan County Economic Development Board, Inc.'s internal control over financial reporting and compliance.

Usselman, Clay & Bright, P.C.

Kingston, Tennessee
February 2, 2016

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

CURRENT ASSETS

Cash	\$ 99,618
Certificates of deposit	95,584
Other receivables	228,555
Grants receivable	<u>531,490</u>
Total current assets	<u>955,247</u>

CAPITAL ASSETS

Land	324,467
Buildings	2,119,989
Equipment	<u>2,756</u>
	2,447,212
Less: accumulated depreciation	<u>(775,765)</u>
Net capital assets	<u>1,671,447</u>

OTHER ASSETS

Loan charges, net of amortization	866
Deposits	<u>1,965</u>
Total other assets	<u>2,831</u>

TOTAL ASSETS \$ 2,629,525

See accompanying notes and auditors' report.

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

LIABILITIES & NET ASSETS

CURRENT LIABILITIES

Accrued payroll liabilities	\$ 842
Salaries payable	1,093
Accounts payable	4,865
Grants payable	721,877
Current portion of long-term debt	50,259
Total current liabilities	<u>778,936</u>

LONG-TERM LIABILITIES

Long-term debt, less current installments	<u>353,239</u>
Total liabilities	<u>1,132,175</u>

NET ASSETS

Unrestricted	<u>1,497,350</u>
Total net assets	<u>1,497,350</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,629,525</u>
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See accompanying notes and auditors' report.

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES:			
Rental income	\$ 186,000	\$ -	\$ 186,000
Grant income	-	860,803	860,803
Miscellaneous income	334	-	334
Total Operating Revenues	186,334	860,803	1,047,137
Assets released from restrictions	1,096,603	(1,096,603)	-
OPERATING EXPENSES:			
Program services	1,339,493	-	1,339,493
Administrative expenses	24,384	-	24,384
Total Operating Expenses	1,363,877	-	1,363,877
Operating loss	(80,940)	(235,800)	(316,740)
NONOPERATING REVENUES (EXPENSES):			
Interest expense	(21,657)	-	(21,657)
Interest income	297	-	297
Gain on sale of land	10,610	-	10,610
Total Nonoperating Expenses	(10,750)	-	(10,750)
Change in net assets	(91,690)	(235,800)	(327,490)
Total net assets, beginning of year, as previously stated	1,622,793	-	1,622,793
Prior period adjustment	(33,753)	235,800	202,047
NET ASSETS, BEGINNING OF YEAR, RESTATED	1,589,040	235,800	1,824,840
NET ASSETS, END OF YEAR	\$ 1,497,350	\$ -	\$ 1,497,350

See accompanying notes and auditors' report

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Program Services</u>	<u>Administrative</u>	<u>Total</u>
Payroll & related expenses	\$ 40,634	\$ 10,159	\$ 50,793
Contributions	2,400	-	2,400
Maintenance & repairs	11,159	-	11,159
Membership dues	2,050	-	2,050
Liability insurance	4,040	-	4,040
Legal & accounting	6,686	-	6,686
Education, travel & entertainment	6,188	1,547	7,735
Supplies	-	3,190	3,190
Utilities	5,485	1,371	6,856
Advertising & promotion	3,098	-	3,098
Grants paid	1,199,552	-	1,199,552
Board member fees	-	7,800	7,800
Rent	4,800	-	4,800
Postage	-	317	317
Amortization	96	-	96
Depreciation	53,305	-	53,305
Total expenses	<u>\$ 1,339,493</u>	<u>\$ 24,384</u>	<u>\$ 1,363,877</u>

See accompanying notes and auditors' report

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and services	\$ 240,160
Receipts from grant	258,535
Payments to suppliers	(534,978)
Payments to employees & board members	<u>(58,320)</u>

Net cash used for operating activities (94,603)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES

Acquisition of capital assets	(4,640)
Disposal of capital assets	30,300
Interest paid on debt	(21,657)
Principal paid on long-term debt	<u>(46,792)</u>

Net cash used for capital and related financing activities (42,789)

DECREASE IN CASH AND CASH EQUIVALENTS (137,392)

BEGINNING OF YEAR 237,010

END OF YEAR \$ 99,618

See accompanying notes and auditors' report

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:

Operating loss	\$ (316,740)
Adjustments to reconcile operating loss to net cash used for Operating activities:	
Depreciation	53,305
Amortization	96
Changes in operating assets and liabilities:	
(Increase) decrease in grants receivable	\$ (437,787)
(Increase) decrease in other receivables	(110,655)
Increase (decrease) in accrued payroll liabilities	163
Increase (decrease) in salaries payable	285
Increase (decrease) in accounts payable	(5,147)
Increase (decrease) in grants payable	<u>721,877</u>
Total adjustments	<u>222,137</u>
Net cash used for operating activities	<u>\$ (94,603)</u>

See accompanying notes and auditors' report

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Morgan County Economic Development Board, Inc. is a tax exempt Organization which helps to recruit and develop industry by purchasing land and building facilities for industry that employ Morgan County, Tennessee citizens.

Basis of Accounting

The Organization uses the accrual basis of accounting whereby revenue and support are recognized when earned and expenses are recognized when incurred.

Classification of Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor or grant imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets – Net assets that are not subject to donor or grant imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor or grant stipulations that may or will be met by either actions of the Organization and/or passage of time. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they may be maintained permanently by the Organization.

Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents. The Organization maintains its cash and cash equivalents with high credit quality financial institutions, which, at times may exceed federally insured limits. The Organization has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Advertising

Advertising costs are expensed as incurred and included in administrative expenses. Advertising expense was \$3,098 for the year ended June 30, 2015.

Property and Equipment

Property and equipment are carried at cost. Depreciation of property and equipment is provided using the modified accelerated cost recovery method based on the following estimated useful lives:

Equipment	5 – 10 years
Buildings	31.5 – 40 years

Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as cash is disbursed. Depreciation expense was \$53,305 for the year ended June 30, 2015, and amortization expense was \$96 for the year ended June 30, 2015.

Income Taxes

Morgan County Economic Development Board, Inc. is classified as an IRC Section 501(c)(4) tax exempt Organization for Federal income tax purposes. Accordingly, no provision has been made for income taxes in the financial statements. The Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements according to FASB ASC 740-10. The Organization's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes the tax returns essentially remain open for possible examination for a period of three years after the date on which those returns are filed.

Functional Allocation of Expenses

The cost of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B – FAIR VALUE FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Organization in estimating the fair value of its financial instruments:

Cash and certificates of deposit – The carrying amount reported in the statement of net assets approximates fair value because of the short maturity of those instruments.

Accounts receivable/Account payable – The carrying amount reported in the statement of net assets approximates fair value because of the short maturity of those instruments.

Notes payable – The carrying amount reported in the accompanying statement of net assets approximates fair value because the Organization can obtain similar loans at similar terms.

NOTE C – NOTES PAYABLE

In 2011, the Organization obtained a 10 year loan for \$307,572, secured by a commercial building and land. Monthly installments of principal and interest payable at 6% in the amount of \$3,429 per month are paid. Closing costs of \$2,869 were paid on the note and were capitalized.

In 2004, the Organization obtained a 20 year loan for \$380,017, secured by commercial buildings and land. Monthly installments of principal and interest payable at a variable rate of 0.75% above the index rate, but no more than 24% annually are paid. The variable rate is set to adjust annually. The interest rate for the year ended June 30, 2015 was 4.0%. Closing costs of \$1,925 were paid on the note and were capitalized.

Maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 50,259
2017	52,987
2018	55,838
2019	58,849
2020	62,041
Thereafter	<u>123,524</u>
Total	<u>\$ 403,498</u>

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE D – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 2, 2016 which is the date the financial statements were available to be issued.

NOTE E – BUILDING LEASES

The Organization leases buildings and land to tenants under noncancelable operating leases with terms of one to seven years. The following is a schedule by years of future minimum rental under the leases at June 30, 2015:

<u>Year Ending June 30,</u>	
2016	\$ 249,000
2017	261,000
2018	261,000
2019	261,000
2020	261,000
Total	<u>\$ 1,293,000</u>

NOTE F – OPERATING LEASE

The Organization leases its office space under a one-year lease. Payments are due in monthly increments of \$400 through May 31, 2016. Rent expenses for year ending June 30, 2015 were \$4,800.

NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2015</u>
Equipment	\$ 2,756	\$ -	\$ -	\$ 2,756
Buildings	2,115,349	4,640	-	2,119,989
Land	344,157	-	19,690	324,467
	2,462,262	4,640	19,690	2,447,212
Less: Accumulated Depreciation	(724,192)	(51,573)	-	(775,765)
Total capital assets, net	<u>\$ 1,738,070</u>	<u>\$ (46,933)</u>	<u>\$ 19,690</u>	<u>\$ 1,671,447</u>

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE H – CONCENTRATIONS

The Organization receives 100% of its rental income from two lessees.

NOTE I – CHANGE IN BASIS OF ACCOUNTING

In previous years, the Organization prepared its financial statements using income tax basis of accounting. For the year ended June 30, 2015, the Organization is preparing the financial statements using generally accepted accounting principles. Therefore, beginning net assets has been restated as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Beginning net assets	\$ 1,622,793	\$ -	\$ 1,622,793
Tax basis to GAAP adjustments:			
Reclassification of net assets	(29,667)	29,667	-
Record 6/30/14 grant receivable	-	93,703	93,703
Record 6/30/14 other receivable	-	117,900	117,900
Record 6/30/14 accrued payroll	(807)	-	(807)
Record 6/30/14 accounts payable	(4,541)	(5,470)	(10,011)
Adjust 6/30/14 GAAP depreciation	<u>1,262</u>	<u>-</u>	<u>1,262</u>
Restated beginning net assets	<u>\$ 1,589,040</u>	<u>\$ 235,800</u>	<u>\$ 1,824,840</u>

SUPPLEMENTARY INFORMATION

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.

**STATEMENT OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Grantor/ Program Name</u>	<u>Receivable June 30, 2014</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Adjustments</u>	<u>Receivable June 30, 2015</u>
11.3000	33006-80913	U.S. EDA FastTrack Infrastructure Development Program	\$ -	\$ -	\$ -	\$ -	\$ -
11.3000	04-01-06651	U.S. EDA Water System Upgrades	<u>93,703</u>	<u>258,535</u>	<u>696,322</u>	<u>-</u>	<u>531,490</u>
			<u>\$ 93,703</u>	<u>\$ 258,535</u>	<u>\$ 696,322</u>	<u>\$ -</u>	<u>\$ 531,490</u>

NOTE 1 – BASIS OF PRESENTATION

This schedule summarizes the expenditures of the Morgan County Economic Development Board, Inc. under programs of the federal and state governments for the year ending June 30, 2015. The schedule is presented using the accrual basis of accounting.

See accompanying notes and auditors' report

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INDEPENDENT AUDITOR'S 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*

To the Board of Directors
Morgan County Economic Development Board, Inc.

We have audited, in accordance with the 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 Morgan County Economic Development Board, Inc. (a nonprofit Organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Morgan County Economic Development Board, Inc.'s basic financial statements and have issued our report thereon dated February 2, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morgan County Economic Development Board, Inc.'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 Morgan County Economic Development Board, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Morgan County Economic Development Board, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies 2010-001 and 2015-002 to be material weaknesses.

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. We consider the deficiencies 2010-002, 2015-001, & 2015-003 to be significant deficiencies.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morgan County Economic Development Board, Inc.'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2010-001, 2010-002, 2015-001, 2015-002, and 2015-003.

Morgan County Economic Development Board, Inc.'s Response to Findings

Morgan County Economic Development Board, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Morgan County Economic Development Board, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Uselem, Clays Bright, P.C.

Kingston, Tennessee

February 2, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Morgan County Economic Development Board, Inc.

Report on Compliance for Each Major Federal Program

We have audited Morgan County Economic Development Board, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Morgan County Economic Development Board, Inc.'s major federal programs for the year ended June 30, 2015. Morgan County Economic Development Board, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Morgan County Economic Development Board, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan County Economic Development Board, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Morgan County Economic Development Board, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Morgan County Economic Development Board, Inc., complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



Report on Internal Control over Compliance

Management of Morgan County Economic Development Board, Inc., is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Morgan County Economic Development Board, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Morgan County Economic Development Board, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as items 2010-001 and 2015-002 to be material weaknesses.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Uselem, Clay + Bright, P.C.
Kingston, Tennessee
February 2, 2016

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified: Yes
- Significant deficiency(ies) identified: Yes

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified: No
- Significant deficiency(ies) identified: Yes

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) Circular A-133: No

Major federal programs for Morgan County Economic Development Board, Inc. for fiscal year ended June 30, 2015 are:

<u>Program Name</u>	<u>CFDA#</u>
• U.S. EDA FastTrack Infrastructure Development Program	11.300
• U.S. EDA Water Systems Upgrades	11.300

Dollar threshold used to distinguish between Type A & Type B programs: \$300,000

Auditee qualified as low-risk auditee: No

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

II. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2010-001 Segregation of Duties – Repeat from prior year

CONDITION - A lack of segregation of duties exists in all areas of the financial statements. One person is responsible for all bookkeeping duties.

CRITERIA –The Organization should separate duties of employees so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee’s work is automatically verified by another employee working independently...

CAUSE – The Organization is a small entity with limited resources with on 1 personnel in charge of daily functions.

EFFECT – The risk of errors and irregularities occurring and not being detected in a timely manner increases when accounting functions are not adequately segregated.

RECOMMENDATION – Although the size of the Organizations’ staff prohibits complete adherence to this concept, we believe that the following practices could be implemented to improve existing internal control without impairing efficiency:

- Bank statements, cancelled checks, and appropriate advices should be received by someone other than employees maintaining cash records. Such items could be periodically reviewed prior to turning them over for reconciliation. Unusual items noted during the review should be investigated promptly.
- Signed checks should also be mailed without allowing them to be returned to the employee responsible for accounts payable.

MANAGEMENT’S RESPONSE – We concur. The Organization is a small entity with limited resources. It is not financially feasible to hire additional personnel to help segregate the duties.

**MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Finding 2010-002 Use of QuickBooks Accounting Software – Repeat from prior year

CONDITION – At present, the Organization uses QuickBooks software to manage the general ledger and payroll functions.

CRITERIA – The system allows but does not require a “close” of each month.

CAUSE – The Organization is a small entity with limited resources and the QuickBooks software provides the accounting software the Organization needs.

EFFECT – Transactions can be backdated to the prior period, thus changing the previously reported financial statements.

RECOMMENDATION – The Organization should implement a QuickBooks close feature monthly, including restricting access to prior-period data. To do so, the Administrator would set the closing date and password, protect it, and then set up permissions that restrict access to the data. The Organization needs consistent accounting information. Adjustments to prior periods negate the validity of historical information. A monthly close will eliminate the ability to backdate.

MANAGEMENT’S RESPONSE – We concur. The Organization is a small entity with limited resources. We will look into setting a closing password that one of the Board members will install.

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Finding 2015-001 Financial Statement and Footnote Preparation

CONDITION – The Organization being auditing is required to have sufficient internal control over financial reporting to allow management to prepare their own financial statements and footnotes in accordance with generally accepted accounting principles (GAAP). Due to limitations on staff size and resources, the Organization’s current internal control structure does not meet this requirement. Management obtains assistance from its external audit firm for the preparation of its annual financial statements and footnotes in accordance with GAAP. Although this results in financial statements which are in accordance with GAAP, the external audit firm cannot and is not considered to be a part of the Organization’s internal control structure.

CRITERIA –The Organization is encouraged to issue a financial report that conforms to the requirements of accounting principles generally accepted in the United States of America (GAAP).

CAUSE – Due to limitations on staff size and resources, the Organization’s current internal control structure does not meet this requirement.

EFFECT – The Organization relies on the one accounting staff and the board of directors to review the financial statements and footnotes.

RECOMMENDATION – The Organization should consider whether it should obtain training for its staff to allow them to prepare financial statements in accordance with GAAP or continue to rely on others for this service.

MANAGEMENT’S RESPONSE – The Organization is a small entity with limited resources. Management had determined that it is more efficient to obtain assistance from its external auditors for the preparation of the annual financial statements and footnotes in accordance with GAAP. Management will continue to review the financial statements and footnotes and take responsibility for them.

MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Finding 2015-002 Audit Adjustments

CONDITION – The Organization maintains the books throughout the year on a cash basis and then adjustments are made during the audit to conform to generally accepted accounting principles. During the audit there were entries posted to record grant and other receivables and unrecorded accounts payable.

CRITERIA – A good system of internal control is part of generally accepted accounting principles.

CAUSE – Due to limitations on staff size and resources, the Organization's current internal control structure does not meet this requirement.

EFFECT – Keeping the books on the cash basis and not reconciling all balance sheet accounts causes the financial statements to be materially misstated during the year.

RECOMMENDATION – Management should review the adjustments made during the audit to determine what entries should be recorded during the fiscal year prior to beginning the annual audit. Most of these entries could be determined by management prior to the audit and recorded as estimates when necessary. Additionally, the books should be kept on the full accrual basis.

MANAGEMENT'S RESPONSE – Management will make every effort to post year-end entries prior to the beginning of the audit process.

**MORGAN COUNTY ECONOMIC DEVELOPMENT BOARD, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

Finding 2015-003 – Schedule of Expenditures of Federal and State Awards

Federal program: All programs
Federal agency: All agencies
Award years: July 1, 2014 to June 30, 2015

Criteria: According to OMB Circular A-133, Subpart C, Paragraph .300(d), the auditee shall prepare appropriate financial statements, including the schedule of expenditures of federal awards.

Condition: The Organization did not prepare a schedule of expenditures of federal and state awards.

Questioned Costs: None

Effect: The Organization is not in compliance with federal regulations regarding preparation of a complete and accurate schedule of expenditures of federal awards.

Cause: Administrative management was unaware a schedule of federal awards was to be prepared by the Organization's staff.

Recommendation: The Organization should develop processes to properly accumulate and report federal award information for inclusion in the schedule of expenditures of federal and state awards.

Response: We concur and will prepare the schedule of expenditures of federal and state awards beginning with the year ending June 30, 2016.

Comment: One individual who works within the grant administration should be in charge of preparing this report due to OMB Circular A-133, Subpart C, Paragraph .300(d) stating the auditee shall prepare this report.

IV. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2010-001	Segregation of Duties	Repeated
2010-002	Use to QuickBooks Accounting Software	Repeated
2014-001	Post Dated Checks	Corrected
2013-001	Financial Statement and Footnote Preparation	Repeated