

MOREHEAD RECREATION, TOURISM
AND CONVENTION COMMISSION
Morehead, Kentucky

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS
for the year ended June 30, 2015

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
<i>Government Wide Financial Statements</i>	
Statement of Net Position	10
Statement of Activities	11
<i>Fund Financial Statements</i>	
Balance Sheet- Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Notes to Financial Statements	15-23
<i>Supplemental Information</i>	
Statement of Revenues, Expenditures and Changes in Fund Balance- Governmental Fund- Budget to Actual	24-25
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	26-27
Schedule of Findings and Responses	28

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Morehead Recreation, Tourism and Convention Commission
Morehead, Kentucky

We have audited the accompanying financial statements of the governmental activities of the Morehead Recreation, Tourism & Convention Commission as of and for the year ended June 30, 2015, which comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Morehead Recreation, Tourism & Convention Commission's management. Our responsibility is to an express opinion on these financial statements based on our audit.

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.

The Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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. 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 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 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 overall 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Morehead Recreation, Tourism & Convention Commission, as of June 30, 2015, 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 budget and actual 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 assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 01, 2015, on our consideration of the Morehead Recreation, Tourism & Convention 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 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 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 Morehead Recreation, Tourism & Convention Commission's internal control over financial reporting and compliance.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

November 01, 2015

This report contains 28 pages.

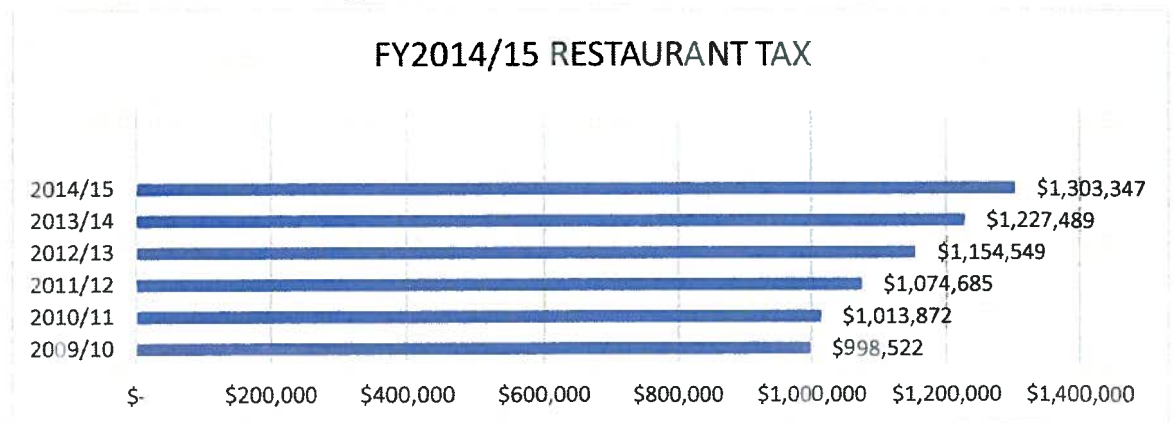


**Management Discussion and Analysis (MD&A)
Fiscal Year Ending June 30, 2015**

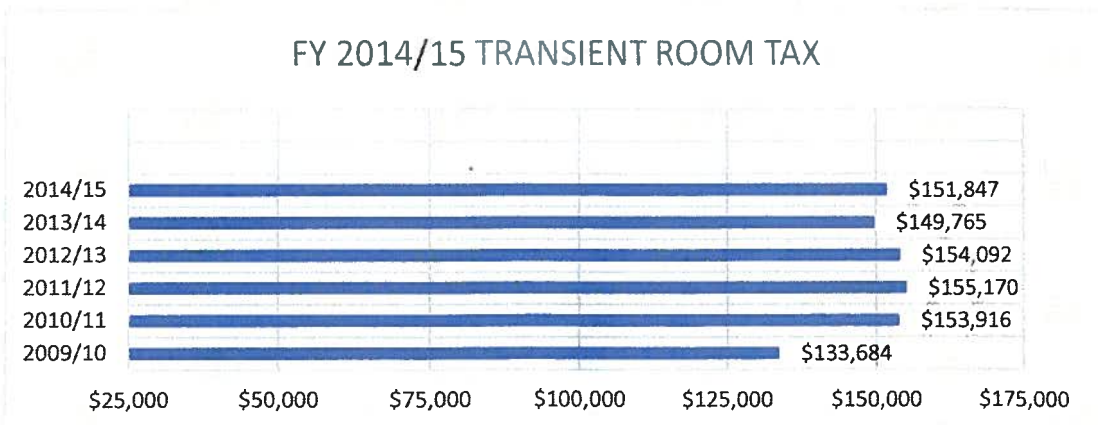
The Management of the Morehead Recreation, Tourism, and Convention Commission (the Commission) offers readers of the Commission's financial statements this narrative overview and analysis of their financial activities for the fiscal year ended (FYE) June 30, 2015. We encourage readers to read the information presented here in conjunction with the auditor's report on page 1-2 and the Commission's financial statements, which begin to appear on page 10.

Financial Highlights

- Restaurant tax collections have increased \$75,859 (or 5.8%) to \$1,303,347 from \$1,227,489 in the prior year. A historical graph follows:



- Hotel tax collections have increased \$2,082 (or 1.4%) to \$151,847 from \$149,765 in the prior year. A historical graph follows:



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- Revenues from Conference Center operations decreased \$1,367 (or 1.4%) to \$93,755 from 95,122 the prior year.
- General and Administrative Expenses increased \$35,612 (or 4.2%) to \$848,708 from \$813,096 in the prior year.
- The Commission's Long-Term Debt increased \$37,725 (or 4.4%) to \$6,939,440 from \$6,901,715 in the prior year.
- The Commission's net assets decreased \$236,681 (or 27.9%) to \$1,046,971 from \$1,283,652 in the prior year's end.

Overview of the Financial Statements

The Commission's basic financials statements consist of the three components; 1) the MD&A, 2) financial statements and 3) notes to the financial statements. The Commission's financial statements present two kind of statements, each with a different snapshot of the Commission's finances. The focus is both the Commission as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the Commission's overall financial status. The fund financial statements focus on the individual funds of the Commission, reporting the Commission's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the Commission's accountability.

The financial statements prepared by management include the Statement of Net Position; Statement of Activities; Balance Sheet- Government Fund, Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds; the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities; and Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds Budget and Actual

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements are on page 15 through 23 of this report. After the notes, supplemental information is provided to show details about the Commission's individual funds.

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information required by the Comptroller General of the United States.

Overview of the Commission

Morehead Conference Center overview

Our conference director has developed a cost savings plan for expenses. We have updated the sound system and continue to upgrade audio and visual needs throughout the facility. All of these improvements save on electric, replacement parts and increases our marketability of the facility.

In early June, one of the MCC boilers went down with no possibility of repair. The abrupt loss resulted in a major replacement cost. Through years of planning and saving, the Depreciative Asset Reserve account (savings account) was available to cover the expense without a major main account loss.

Morehead Conference Center hosted the first regional Kentucky Proud Expo in early spring. Over twenty-five vendors were on hand for the event. The event was endorsed by the Kentucky Proud program as an annual event.

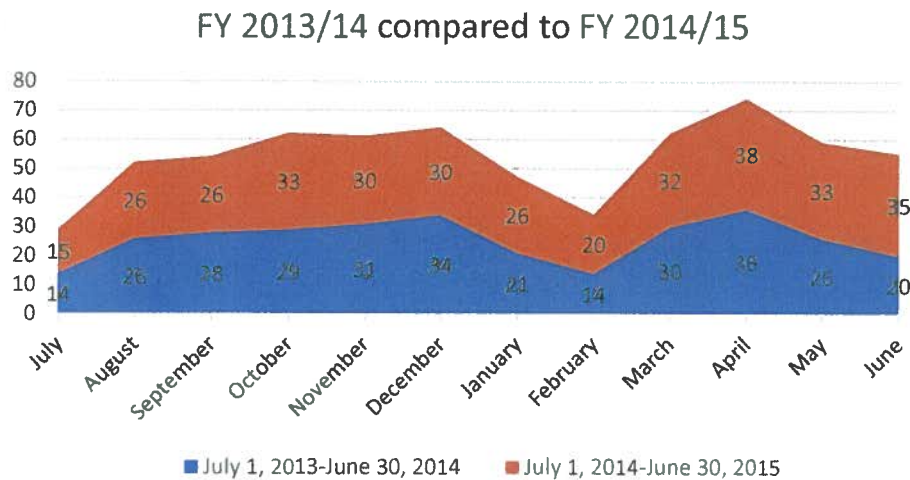
Morehead Tourism overview

In July 2014 we became an official Kentucky Trail Town complete with a visit from the Governor's wife and a host of supporters. We also added two interstate directional signs encouraging visits to the Sheltoewe Trace National Recreation Trail which now meanders down our Main Street corridor.

We continue to call the travel guides our success story. Those travel guides are ‘traveling’ nationwide. We have signed on with a larger tourist rack distributor, we continue to receive requests from our website, social media, phone calls and many more outlets. We are planning a second print/redesign in July 2016.

Our \$20,000 investment for the Morehead Freedom Fest – Thunder Over Triplett proved highly effective. Despite unpredictable weather conditions, streets, sidewalks, yards and more were filled to capacity to enjoy the music and fireworks show. This annual event created a positive partnership between Morehead Tourism, City of Morehead, Downtown Morehead Inc., Morehead State University and the Kentucky Governor’s Scholars Program.

Our marketing efforts were rewarded in late fall with three bronze Traverse awards during the fall Kentucky Tourism Industry Association Conference.



Rowan County Arts Center overview

The Morehead Arts and Eats Festival was designated by the Appalachian Regional Commission as a distinctive local food destination. This honor was given to 283 locations across the Appalachian 13 state corridor.

The Rowan County Arts Center hosted to the first outdoor theatre production, Dining with the Dead. This production was funded by a grant from the Kentucky Tourism, Arts and Heritage Cabinet.

We launched First Friday on April 3. This event provided a place for local sellers to get their name and products out into the community. It also encouraged the community to stop locally and support their neighbors.

Table 1
The Commission's Net Position

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	\$ 230,982	\$ 241,665	\$ (10,683)	(0.04)
Capital Assets	8,069,903	8,240,828	\$ 170,925	0.02
Deferred outflow of resources	<u>39,433</u>	<u>-</u>	<u>39,433</u>	<u>100.00</u>
Total Assets	<u>\$ 8,340,318</u>	<u>\$ 8,482,493</u>	<u>\$ 199,675</u>	<u>0.02</u>
Current Liabilities	\$ 320,907	\$ 297,126	\$ 23,781	0.08
Long-Term Debt Outstanding	6,939,440	6,901,715	\$ 37,725	0.01
Deferred inflow of resources	<u>33,000</u>	<u>-</u>	<u>33,000</u>	<u>100.00</u>
Total Liabilities	<u>\$ 7,293,347</u>	<u>\$ 7,198,841</u>	<u>\$ 94,506</u>	<u>0.01</u>
Net Assets:				
Invested in Capital Assets, net of debt	\$ 1,175,389	\$ 1,096,928	\$ 78,461	0.07
Restricted	9,460	62,733	(53,273)	(0.85)
Unrestricted	<u>(137,878)</u>	<u>123,991</u>	<u>(261,869)</u>	<u>(2.11)</u>
Total Net Assets	<u>\$ 1,046,971</u>	<u>\$ 1,283,652</u>	<u>\$ (236,681)</u>	<u>(0.18)</u>
	0.90%	4.89%		

Net position may serve over time as one useful indicator of a government's financial condition. The assets of the Commission's exceeded liabilities by \$1,046,971 as of June 30, 2015. The Commission's net assets decreased by \$236,681 for the fiscal year ended June 30, 2015. The largest portion of net assets (112.3%) reflects the Commission's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Commission uses these capital assets to provide recreation, tourism and convention services; consequently, these assets are not available for future spending. Although the Commission's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Commission's net assets (-12.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$-137,878 is unrestricted.

Table 2
Condensed Statement of Activities

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Program Revenues				
Charges for Services	93,755	95,122	(1,367)	(0.01)
Operating Grants and Contributions	<u>44,307</u>	<u>25,251</u>	<u>19,056</u>	<u>0.75</u>
Total Revenue	<u>138,062</u>	<u>120,373</u>	<u>17,689</u>	<u>0.15</u>
Program Expenses				
Grant and Administrative	1,050,869	1,021,584	29,285	0.03
Special Events and Recreation	130,527	136,573	(6,046)	(0.04)
Debt Services	<u>341,593</u>	<u>363,951</u>	<u>(22,358)</u>	<u>(0.06)</u>
Total Expenses	<u>1,522,989</u>	<u>1,522,108</u>	<u>881</u>	<u>0.00</u>
Net (Expense) Revenue	(1,384,927)	(1,401,735)	16,808	0.15
General Revenues				
Hotel Tax	151,847	149,765	2,082	0.01
Restaurant Tax	1,303,347	1,227,489	75,858	0.06
Rental service	4,097	8,096	(3,999)	(0.49)
RCAC Mgmt Fee	7,529	13,000	(5,471)	(0.42)
Other	<u>4,585</u>	<u>84</u>	<u>4,501</u>	<u>53.58</u>
Total General Revenue	<u>1,471,405</u>	<u>1,398,434</u>	<u>72,971</u>	<u>0.05</u>
Extraordinary Item-loss on disposal of capital asset	<u>(16,160)</u>			
Change in Net Assets	<u>\$ 70,318</u>	<u>\$ (3,301)</u>	<u>\$ 67,017</u>	<u>20.30</u>

The Commission's condensed Statement of Activities separates Program Revenues from General revenues. Program revenues are those which the Commission earns through its "business" operations and from grants from Commonwealth of Kentucky. The General revenues consist of various taxes and other revenues that the Commission receives.

Capital Asset and Debt Administration

Capital Assets- The Commissions investments in capital assets as of June 30, 2015, total \$8,069,903 (net of accumulated depreciation). These assets include buildings, land, equipment, and vehicles. There were no major capital asset transactions during the year.

Additional information on the Commission's capital assets can be found in Note 3 of the Basic Financial Statements.

Table 3
Commission's Capital Assets

	<u>Total Primary Government</u>
	\$
Land	2,266,671
Buildings & Land Improvements	7,253,181
Vehicles	34,398
Equipment	325,327
Land Improvements	<u>89,257</u>
Total Capital Assets	9,968,834
Accumulated Depreciation	1,898,931
Capital Assets, net of Depreciation	<u>\$ 8,069,903</u>

Debt- As of June 30, 2015, The Commission had a total debt outstanding of \$6,894,514. The Kentucky League of Cities Bonds are secured by the assets associated with the debt.

Table 4
The Commission's Outstanding Debt

	<u>Total Primary Government</u>
Kentucky League of Cities	\$ 6,894,514
Total Debt Outstanding	<u>\$ 6,894,514</u>

The Commission's total debt decreased by \$249,386 during the past fiscal year. The decrease was due to the payment on outstanding debt

Additional information on the Commission's debt can be found in Note 4 of the Basic Financial Statements.

Economic Factors and Next Years Budget

The depreciation asset reserve account continues to grow. This account was created to help pay for major repairs on the capital assets for normal wear and tear. The monthly transfer into the account is \$5000.00

The Commission considered many factors when setting the FYE June 30, 2016 budget. Some of the factors are local and national economy and anticipated tax revenues. These factors when combined with continued growth in the Restaurant Tax provide the basis for the next year's budget.

Requests for Information

This report is designed to provide an overview of the Commission's finances for those with an interest in this area and to show the Commission's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact Joy Brown, at 111 East First Street, Morehead, Kentucky 40351.

MOREHEAD RECREATION, TOURISM & CONVENTION COMMISSION
STATEMENT OF NET POSITION
June 30, 2015

<u>ASSETS & DEFERRED OUTFLOWS</u>	Governmental Activities
<i>Current Assets</i>	
Cash and cash equivalents	\$ 93,079
Prepaid bond interest	9,460
Accounts receivable	<u>128,443</u>
Total Current Assets	<u>230,982</u>
<i>Noncurrent Assets</i>	
Buildings, land and equipment (Note 3)	9,968,834
Accumulated depreciation	<u>(1,898,931)</u>
Total Noncurrent Assets	<u>8,069,903</u>
Deferred outflow of resources	<u>39,433</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 8,340,318</u>
<u>LIABILITIES & DEFERRED INFLOWS</u>	
<i>Current Liabilities</i>	
Accounts payable	\$ 23,267
Accrued liabilities	9,859
Accrued interest	23,250
Accrued compensated absences	3,437
Notes and leases payable (Note 4)	<u>261,094</u>
Total Current Liabilities	<u>320,907</u>
<i>Noncurrent Liabilities</i>	
Accrued compensated absences	8,020
Notes and leases payable (Note 4)	6,633,420
Accrued pension and OPEB liabilities	<u>298,000</u>
Total Noncurrent Liabilities	<u>6,939,440</u>
Deferred inflow of resources	<u>33,000</u>
Total Liabilities and Deferred Inflow of Resources	<u>7,293,347</u>
<u>NET POSITION</u>	
Net investment in capital assets	1,175,389
Restricted	9,460
Unrestricted	<u>(137,878)</u>
Total Net Position	<u>\$ 1,046,971</u>

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

MOREHEAD RECREATION, TOURISM & CONVENTION COMMISSION
Statement of Activities
for the year ended June 30, 2015

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	
<u>Primary Government</u>				
Governmental Activities				
General and administrative	\$ 1,050,869	\$ -	\$ 44,307	\$ (1,006,562)
Special events and recreation	130,527		-	(130,527)
Events and catering		93,755		93,755
Interest on long-term debt	341,593	-	-	(341,593)
Total Governmental Activities	<u>1,522,989</u>	<u>93,755</u>	<u>44,307</u>	<u>(1,384,927)</u>
General Revenues				
Hotel tax				151,847
Restaurant tax				1,303,347
Miscellaneous				4,502
Rental service				4,097
RCAC management fee				7,529
Interest				<u>83</u>
Total General Revenues				<u>1,471,405</u>
Extraordinary item--loss on disposal of capital asset				<u>(16,160)</u>
Change in Net Position				70,318
Net position -- beginning				1,283,653
Prior period adjustment				<u>(307,000)</u>
Net position -- ending				<u>\$ 1,046,971</u>

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

MOREHEAD RECREATION, TOURISM & CONVENTION COMMISSION
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2015

ASSETS & DEFERRED OUTFLOWS

	General
<i>Current Assets</i>	
Cash and cash equivalents	\$ 93,079
Prepaid bond interest	9,460
Accounts receivable	<u>128,443</u>
 Total Assets	 <u>230,982</u>
 Deferred outflow of resources	 <u>39,433</u>
 Total Assets and Deferred Outflow of Resources	 <u>\$ 270,415</u>

LIABILITIES, DEFERRED INFLOWS & FUND BALANCE

<i>Current Liabilities</i>	
Accounts payable	\$ 23,267
Accrued liabilities	9,859
Accrued interest	23,250
Accrued compensated absences	<u>3,437</u>
 Total Liabilities	 <u>59,813</u>
 Deferred Inflow of Resources	 <u>33,000</u>
 Total Liabilities and Deferred Inflow of Resources	 <u>92,813</u>

FUND BALANCE

Unrestricted	168,142
Restricted	<u>9,460</u>
Total Fund Balance	<u>177,602</u>
 Total Liabilities, Deferred Inflow and Fund Balance	 <u>\$ 270,415</u>
 Total Governmental Fund Balance	 \$ 177,602

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	9,968,834
Accumulated depreciation	(1,898,931)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(7,200,534)</u>
 Net Position of Governmental Activities	 <u>\$ 1,046,971</u>

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

MOREHEAD RECREATION, TOURISM & CONVENTION COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
for the year ended June 30, 2015

REVENUES

Hotel tax	\$ 151,847
Restaurant tax	1,303,347
State matching funds	44,307
Events and catering	93,755
Rental service	4,097
RCAC management fee	7,529
Other	<u>4,585</u>
 Total Revenue	 <u>1,609,467</u>

EXPENSES

General and administrative	848,708
Special events and recreation	130,527
Debt service - principal	249,386
Debt service - interest	341,593
Capital outlay	<u>55,573</u>
 Total Expenditures	 <u>1,625,787</u>
 Excess (deficiency) of revenues over expenditures	 <u>(16,320)</u>
 Net Change in Fund Balance	 (16,320)
 Fund balances - beginning	 <u>193,922</u>
 Fund balances - ending	 <u><u>\$ 177,602</u></u>

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

MOREHEAD RECREATION, TOURISM & CONVENTION COMMISSION
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds to the
Statement of Activities
for the year ended June 30, 2015

Reconciliation to government-wide change in net position:

Net change in fund balances	\$ (16,320)
increase/(decrease):	
capital outlay expenditures capitalized	55,573
debt service expenditures	590,979
net pension liability adjustment per GASB 68	9,000
loss on disposal of capital asset	(16,160)
depreciation on governmental activities assets	(210,338)
change in long-term portion of accrued compensated absences	(823)
interest on long-term debt	<u>(341,593)</u>
Change in net position, Governmental Activities	<u>\$ 70,318</u>

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

MOREHEAD RECREATION, TOURISM AND CONVENTION COMMISSION
Notes to the Financial Statements
June 30, 2015

Note 1 – Summary of Significant Accounting Policies

A. Nature of Activities

Morehead Recreation, Tourism and Convention Commission ("Commission") was established on October 13, 1975, by the City of Morehead pursuant to KRS 83.345 (as amended) for the purpose of promoting recreational, tourist, and convention activities in Morehead and Rowan County. The Commission's primary source of revenue is from a restaurant tax and a hotel and motel room tax, which are both collected by the City of Morehead.

B. Basis of Presentation

The Commission presents its financial statements in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," and consists of the following:

Management's discussion and analysis (required supplementary information);

Basic Financial Statements
Government-wide financial statements
Fund financial statements
Notes to the financial statements

Government-wide Financial Statements

The government-wide financial statements include a statement of net position and the statement of activities. These statements display information about the Commission as a whole. The statements distinguish between governmental and business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by recipient for the goods or services offered by the program and grants or contributions that are restricted by the program. Revenues which are not classified as program revenues are presented as general revenues of the Commission.

Fund Financial Statements

Fund financial statements report detailed information about the Commission. The accounts of the Commission are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses.

Governmental Funds are those through which most governmental functions are detailed. The governmental fund measurement focus is upon determination of financial position and budgetary control over revenues and expenditures. Proprietary Fund Types are used to account for operations that are financed and operated in a manner similar to business enterprises-where intent of the governing body is that costs of providing services are to be financed or recovered primarily through user charges.

The following fund is used by the Morehead Recreation, Tourism and Convention Commission:

Governmental Fund Types

General Fund – The general operating fund of the Commission is used to account for all financial resources except those required to be accounted for in another fund.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Commission as a whole. The government-wide statements are prepared using the economic resources measurement focus.

This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

Fund Financial Statements

The financial transactions of the Commission are recorded in individual funds. Their focus is on individual funds rather reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Investment earnings are recorded when earned since they are measurable and available in all funds.

D. Budgeting

The Commission follows procedures established by the City of Morehead in budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts in the financial statements are adopted by the Commission Board, the City Council of Morehead, and submitted to the Fiscal Court before July 1 of every year.

E. Use of Estimates

The preparation of financial statements in the conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Reporting Entity

The Commission's functions include the promotion of area tourism and recreation activities. As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and results of operations of the Morehead Recreation, Tourism and Convention Commission, a primary government. There are no component units to be included herewith, but this report does include all funds, account groups and programs which are controlled by the entity's governing body. The Commission is a component unit of the City of Morehead.

G. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. Cash and Investments

KRS 66.480 allows local governments to invest money in obligations of the United States and of its agencies and instrumentalities, repurchase agreements for U.S. government securities, bonds or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and instrumentalities; deposits with savings and loan associations insured by an agency of the U.S. government, or interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U.S. government. Amounts invested in interest-bearing deposits that exceed FDIC insurance must be fully collateralized in accordance with KRS 41.240(4), with securities pledged that have a current quoted market value at least equal to any uninsured deposits.

Cash consists of demand deposit balances and a savings account with local financial institutions. All balances as of June 30, 2015 were covered by FDIC insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

The Commission transfers \$1062/month from its operating account into a depreciation reserve account to help pay for major repairs on its capital assets due to normal wear and tear.

The Commission's cash and cash equivalents consist of cash held in a checking account in the amount of \$28,999, a depreciation reserve account in the amount of \$49,894 and a theatre account in the amount of \$14,086, totaling \$92,979. The remaining \$100 is held as petty cash. Deposits with financial institutions are secured as follows:

	Reconciled Bank Balance	Deposits in Bank
Insured by FDIC	\$ 92,979	\$ 98,399
Collateralized with specific securities in the Commission's name which are held by the financial institution	0	0
Uncollateralized	<u>0</u>	<u>0</u>
	<u>\$ 92,979</u>	<u>\$ 98,399</u>

3. Capital Assets

The following is a summary of furniture, equipment and leasehold improvements as of June 30, 2015:

Description	Balance 07/01/14	Adjustments/ Additions Deletions		Balance 06/30/15
Land, non-depreciable	\$ 2,266,671	\$ -	\$ -	\$ 2,266,671
Convention Center	7,273,381	-	20,200	7,253,181
Automobiles	34,398	-	-	34,398
Equipment	269,754	55,573	-	325,327
Land improvements	89,257	-	-	89,257
Total	<u>\$ 9,933,461</u>	<u>\$ 55,573</u>	<u>\$ 20,200</u>	<u>\$ 9,968,834</u>
Accumulated depreciation	<u>\$ 1,692,633</u>	<u>\$ 210,338</u>	<u>\$ 4,040</u>	<u>\$ 1,898,931</u>
Capital assets, net of accumulated depreciation	<u>\$ 8,240,828</u>			<u>\$ 8,069,903</u>

Capital assets are recorded at cost or estimated cost. Depreciation of capital assets is provided over the useful lives of the respective assets using the straight-line method. The estimated useful lives are as follows:

Vehicles, furniture and equipment	5-10 years
Buildings and improvements	25-40 years
Land improvements	10-20 years

4. Notes and Leases Payable

A. Leases Payable

On, June 19, 2003, the Commission entered into a lease financing arrangement with the Kentucky League of Cities. The total amount financed was \$ 4,970,000. The lease has a variable interest rate and a term of 28 ½ years. The interest rate at June 30, 2015 was 4.04%. The Commission entered into this lease for acquisition, construction, installation and equipping of a convention center to be located in Morehead, Kentucky.

	Principal	Interest	Fees	Total Payment
2016	\$ 135,806	\$ 144,140	\$ 27,665	\$ 307,611
2017	142,754	138,006	26,600	307,360
2018	150,057	132,361	25,466	307,884
2019	144,619	126,422	24,329	295,370
2020	178,921	120,121	23,254	322,296
2021-2025	965,286	487,894	95,069	1,548,249
2026-2030	1,238,809	267,108	53,823	1,559,740
2031-2033	666,609	32,020	7,760	706,389
Total	\$ 3,622,861	\$ 1,448,072	\$ 283,966	\$ 5,354,899

In addition to the above, the Commission total base rental also includes a .25% administration fee, a fiduciary fee, a .4% credit fee, and a .08% remarketing fee. These fees are calculated on the remaining principal of the base lease.

On June 19, 2003, the Commission entered into a lease financing arrangement with the Kentucky League of Cities. The total amount financed was \$ 1,520,000. The lease has a variable interest rate and a term of 26 ½ years. The interest rate at June 30, 2015 was 4.07 %. This lease was acquired to help finance the acquisition, construction, installation and equipping of the convention center.

	Principal	Interest	Fees	Total Payment
2016	\$ 50,856	\$ 40,968	\$ 8,522	\$ 100,346
2017	53,299	38,748	8,137	100,184
2018	55,857	36,647	7,741	100,245
2019	58,540	34,370	7,321	100,231
2020	61,351	32,042	6,887	100,280
2021-2025	353,887	119,857	27,094	500,838
2026-2030	414,185	40,721	12,324	467,230
Total	\$ 1,047,975	\$ 343,353	\$ 78,026	\$ 1,469,354

In addition to the above, the Commission total base rental also includes a .25% administration fee, a fiduciary fee, a .4% credit fee and a .08% remarketing fee. These fees are calculated on the remaining principle of the base lease.

On December 15, 2005, the Commission entered into a lease financing arrangement with the Kentucky League of Cities. The total amount financed was \$ 1,500,000. The lease has a variable interest rate and a term of 28 ½ years. The interest rate at June 30, 2015 was 3.99 %. This lease was acquired to help finance the acquisition, construction, installation and equipping of the convention center.

	Principal	Interest	Fees	Total Payment
2016	\$ 42,722	\$ 46,866	\$ 9,387	\$ 98,975
2017	44,478	44,927	9,060	98,465
2018	46,107	43,170	8,726	98,003
2019	47,867	41,260	8,374	97,501
2020	49,625	39,351	8,024	97,000
2021-2025	278,295	163,863	34,192	476,350
2026-2030	335,362	101,774	22,890	460,026
2031-2035	324,341	28,201	8,709	361,251
Total	\$ 1,168,797	\$ 509,412	\$ 109,362	\$ 1,787,571

On November 30, 2007, the Commission entered into a lease financing arrangement with the Kentucky League of Cities. The total amount financed was \$ 1,250,000. The lease has a variable interest rate and a term of 28 ½ years. The interest rate at June 30, 2015 was 4.10%. This lease was acquired to help finance the acquisition, construction, installation and equipping of the convention center and its parking lot.

	Principal	Interest	Fees	Total Payment
2016	\$ 31,710	\$ 42,739	\$ (339)	\$ 74,110
2017	33,316	41,255	8,871	83,442
2018	34,776	39,938	8,616	83,330
2019	36,379	38,483	8,344	83,206
2020	37,978	37,028	8,075	83,081
2021-2025	218,157	159,340	35,709	413,206
2026-2030	273,015	109,370	26,557	408,942
2031-2035	341,759	46,737	15,099	403,595
2036	47,791	686	890	49,367
Total	\$ 1,054,881	\$ 515,576	\$ 111,822	\$ 1,682,279

B. Notes Payable

On June 15, 2005, the Commission entered into a note payable financing arrangement with Whitaker Bank. The original amount financed was \$330,500 and the interest rate is 3.25%. The balance of the note at June 30, 2015 was \$-0-; the note was paid off during the fiscal year.

Changes in Notes & Leases Payable

During the year ended June 30, 2015, the following changes occurred:

	Balance		Principal	Balance	Current
<u>Description</u>	<u>07/01/2014</u>	<u>Proceeds</u>	<u>Paid</u>	<u>06/30/2015</u>	<u>Portion</u>
Kentucky League of Cities	\$ 7,143,900	\$ -	\$ 249,386	\$ 6,894,514	\$ 261,094
Total	\$ 7,143,900	\$ -	\$ 249,386	\$ 6,894,514	\$ 261,094

5. Matching Funds

Each year the Commission files a matching grant application with the Kentucky Department of Tourism. Under the terms of the grant, the Commission is reimbursed for fifty percent of allowable advertising expenses.

6. Defined Benefit Pension Plan

General Information about the Pension Plan

Plan description - Regular, full-time, employees of the Commission are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested as a whole each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefit terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky Retirement System issues a publicly available financial report that can be obtained on their website.

Benefits provided - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are

required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the Legislature.

Contributions - Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The Commission's contractually required contribution rate for the year ended June 30, 2015 was 17.76% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Commission were \$39,433 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Commission reported a liability of \$298,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's portion of the net pension liability was based on the Commission's proportionate share of retirement contributions for the fiscal year ended June 30, 2014. At June 30, 2014 the Commission's proportionate share was 0.01%.

For the year ended June 30, 2015, the Commission recognized pension expense of \$24,000. At June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -0-	\$ 33,000
Commission's contributions subsequent to the measure date	<u>39,433</u>	<u>-0-</u>
Total	\$ 39,433	\$ 33,000

\$39,433 reported as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2016	\$ (6,600)
June 30, 2017	(6,600)
June 30, 2018	(6,600)
June 30, 2019	(6,600)
June 30, 2020	(6,600)
Thereafter	<u>-0-</u>
Total	\$ (33,000)

Actuarial assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases	4.5% average including inflation
Investment rate of return	7.75%, net of pension plan investment expense including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005-June 30, 2008.

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return and net of investment expense) were developed by the investment consultant for each major asset class. These ranges were 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 then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Unexpected Nominal Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5%
Cash	<u>1%</u>	3.25%
	100%	

Discount rate - The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Commission will be made at contractually required rates, actuarially determined. 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 active and inactive employees.

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.

Sensitivity of the Commission's proportionate share of the net pension liability to changes in the discount rate - The following presents the Commission's proportionate share of the 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 <u>6.75%</u>	Current Discount Rate <u>7.75%</u>	1% Increase <u>8.75%</u>
Commission's proportionate share of the net pension liability	\$ 393,000	\$ 298,000	\$ 215,000

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

7. Kentucky Employees' Deferred Compensation Plan

Kentucky Public Employees' Deferred Compensation Authority (KDC) is authorized under the Kentucky Revised Statutes (18A.230-18A.275) to provide administration of tax-deferred supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate. It is an agency attached to the Personnel Cabinet of the Commonwealth of Kentucky for administrative purposes only.

A 457(b) pre-tax plan is a governmental deferred compensation plan that allows participants to make tax-deferred contributions each pay period, which are then invested and potentially grow usually until retirement. The Kentucky Public Employees' Deferred Compensation Authority (KDC) 457(b) Deferred Compensation Plan allows State employees to get the same benefit, through a program that is specifically tailored to the needs of Kentucky public employees. A minimum monthly payroll contribution of \$30 per plan is required. The Internal Revenue Services' maximum elective deferrals for 2015 is \$18,000 for those under age 50, \$18,000 age 50 and up, and \$36,000 for special catch-up contributions. You can learn more about the plan by visiting the Kentucky Deferred Comp website at www.KentuckyPlans.com.

Employee contributions to the plan for the year were \$3,195.

8. Risk Management

The Morehead Recreation, Tourism and Convention 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. In addition to its general liability insurance, the Commission also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance.

9. Accrued Compensated Absences

Sick Leave – All employees occupying full-time established positions should receive eight hours sick leave credit for each month of service. Sick leave may be accrued up to a maximum of 120 days (960 hours). Accumulated sick leave shall not be compensated upon termination.

Vacation Leave – All employees occupying full-time established positions should be granted annual leave at full pay at the current salary rate.

The following schedule applies for maximum accrual:

First seven years of employment – 80 hours
8 years or more of employment – 120 hours

Vacation leave shall be accrued at the rate of 1/12th of the annual rate per month of employment. After completing 12 months of employment, any employee who terminates employment shall be compensated for all accrued but unused vacation leave.

Current portion	\$ 3,437
Noncurrent portion	<u>8,020</u>
Total	<u>\$ 11,457</u>

10. Rowan County Arts Center

The Morehead Tourism Commission shall allow the Rowan County Arts Promotion Foundation to subsidize the salary of the Executive Director of the Rowan County Arts Center (RCAC) in the amount of \$13,000 for the fiscal year ending June 30, 2015.

The Tourism Commission acknowledges that the RCAC Executive Director shall be principally engaged in the promotion, development and administration of the Rowan County Arts Center but also expects that a substantial portion of the individual's work schedule will be devoted to tasks assigned by the Tourism Commission.

Additional details about this agreement may be obtained by contacting the Morehead Recreation, Tourism & Convention Commission.

11. Prior Period Adjustment

To record net pension liability in accordance with GASB 68 - \$(307,000)

SUPPLEMENTAL INFORMATION

MOREHEAD RECREATION, TOURISM & CONVENTION COMMISSION
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Fund
Budget and Actual
Morehead Tourism Commission (MTC)
for the year ended June 30, 2015

	Original, Enacted & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
<u>Morehead Tourism Commission (MTC)</u>			
Carryover	\$ -	\$ -	\$ -
RCAC management fee	15,000	7,529	(7,471)
Transient room tax	150,882	151,847	965
Morehead restaurant tax - MTC	261,931	268,855	6,924
State matching funds	28,500	24,807	(3,693)
Interest income	-	70	70
Grant income	19,500	19,500	-
Miscellaneous income	2,000	4,502	2,502
Event income	-	-	-
Total MTC revenue	<u>477,813</u>	<u>477,110</u>	<u>(703)</u>
EXPENSES			
<u>Morehead Tourism Commission (MTC)</u>			
Accountant expense	7,000	6,000	1,000
Administrative services	11,400	13,008	(1,608)
Legal	1,000	688	312
Executive director	52,275	52,663	(388)
Executive assistant	32,881	34,281	(1,400)
RCAC executive director	36,593	41,290	(4,697)
RCAC building assistant	5,000	5,917	(917)
EDC marketing support	-	5,009	(5,009)
Marketing - MTC	79,261	187,686	(108,425)
Audit	6,500	6,250	250
Event expense	-	-	-
Staff travel & dues - MTC	13,000	13,076	(76)
Copier lease	7,200	8,453	(1,253)
Payroll tax expenses - MTC	10,352	11,477	(1,125)
Benefits - MTC	21,019	20,567	452
Tax expense - MTC	-	4	(4)
Administrative expense	8,835	11,006	(2,171)
Postage/meter lease	10,000	6,309	3,691
Grant funding	182,914	109,623	73,291
Retirement - MTC	22,137	18,488	3,649
Cell phone expense	2,400	2,400	-
Grant expense	19,500	2,635	16,865
Total MTC expenses	<u>529,267</u>	<u>556,830</u>	<u>27,563</u>
Profit/(loss)	<u>\$ (51,454)</u>	<u>\$ (79,720)</u>	<u>\$ (28,266)</u>
<u>MTC Summary</u>			
Revenues	\$ 477,813	\$ 477,110	\$ (703)
Expenses	<u>529,267</u>	<u>556,830</u>	<u>(27,563)</u>
Difference	<u>\$ (51,454)</u>	<u>\$ (79,720)</u>	<u>\$ (28,266)</u>

MOREHEAD RECREATION, TOURISM & CONVENTION COMMISSION
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Fund
Budget and Actual

Morehead Convention Commission (MCC)

for the year ended June 30, 2015

	Original, Enacted & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
<u>Morehead Conference Center (MCC)</u>			
Carryover	\$ -	\$ -	\$ -
Morehead restaurant tax - MCC	928,663	1,034,492	105,829
Interest revenue	-	13	13
Events	95,000	54,890	40,110
Local catering income	19,000	21,007	2,007
Special event staffing	2,000	-	(2,000)
Catering Lundys	19,500	17,858	(1,642)
Rental service income	7,000	4,097	(2,903)
Total MCC revenue	<u>1,071,163</u>	<u>1,132,357</u>	<u>61,194</u>
EXPENSES			
<u>Morehead Conference Center (MCC)</u>			
MCC director	38,000	38,000	-
MCC building operator	35,364	35,627	(263)
MCC building services technician	22,807	23,097	(290)
MCC building assistants (part-time)	40,000	25,162	14,838
Marketing - MCC	51,000	24,134	26,866
Staff travel & dues - MCC	8,500	6,100	2,400
Payroll tax expenses - MCC	8,151	9,824	(1,673)
Vehicle maintenance/gas	4,000	2,658	1,342
Benefits - MCC	25,226	16,460	8,766
Insurance	27,500	38,916	(11,416)
Retirement - MCC	17,054	14,512	2,542
Rental services expense	16,575	13,372	3,203
Parking lease	7,600	7,200	400
Cleaning supplies	28,707	8,808	19,899
Local catering expense	17,500	20,904	(3,404)
Equipment repair	79,000	46,521	32,479
Utilities - phone & DSL	8,000	8,147	(147)
Utilities - electric	67,410	70,653	(3,243)
Utilities - gas	15,000	9,542	5,458
Garbage	720	681	39
Water & sewer	2,000	1,068	932
Utilities - electric sign	1,500	1,019	481
Depreciative asset reserve / capital purchases	60,000	55,573	4,427
Jeffersontown Pool	-	48,565	(48,565)
Morehead Pool	-	41,227	(41,227)
Newport Pool	-	129,196	(129,196)
Richmond Pool	-	30,398	(30,398)
Interest expense	286,295	341,593	(55,298)
Total MCC expenses	<u>867,909</u>	<u>1,068,957</u>	<u>201,048</u>
Profit/(loss)	<u>\$ 203,254</u>	<u>\$ 63,400</u>	<u>\$ (139,854)</u>

MCC Summary

Revenues	\$ 1,071,163	\$ 1,132,357	\$ 61,194
Expenses	867,909	1,068,957	(201,048)
Difference	<u>\$ 203,254</u>	<u>\$ 63,400</u>	<u>\$ (139,854)</u>

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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 Commissioners
Morehead Recreation, Tourism and Convention Commission
Morehead, Kentucky

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 of the governmental activities of the Morehead Recreation, Tourism and Convention Commission, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Morehead Recreation, Tourism and Convention Commission's basic financial statements, and have issued our report thereon dated November 01, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Morehead Recreation, Tourism and Convention 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 Morehead Recreation, Tourism and Convention Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morehead Recreation, Tourism and Convention 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morehead Recreation, Tourism and Convention 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.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

November 01, 2015

MOREHEAD RECREATION, TOURISM AND CONVENTION COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015

FINDINGS – FINANCIAL STATEMENTS AUDIT

PRIOR FINDINGS

None

CURRENT FINDINGS

None