

MOREHEAD UTILITY PLANT BOARD
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

Board Members
Morehead Utility Plant Board
Morehead, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Morehead Utility Plant Board of the City of Morehead, Kentucky (the "Board") as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morehead Utility Plant Board of the City of Morehead, Kentucky, as of June 30, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 11 to the financial statements, the Board adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 9 and the schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions on pages 26 through 28 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 Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The schedules contained on pages 29 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules contained on pages 29 through 36 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 December 28, 2015, on our consideration of the Board'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 Board's internal control over financial reporting and compliance.

Kelley Balloway Smith Goolsby, PSC

December 28, 2015
Ashland, Kentucky

Morehead Utility Plant Board

Management's Discussion and Analysis

Our discussion and analysis of MUPB's financial performance provides an overview of MUPB's financial activities for the fiscal years ended June 30, 2015 and 2014. This analysis reflects GASB 68 accounting standards restatements of prior year end balances. Please read in conjunction with the accompanying basic financial statements and review references to GASB 68.

FUND STRUCTURE

MUPB's only fund is a proprietary fund type. As such, it records its transactions based on the flow of economic resources.

FINANCIAL HIGHLIGHTS

- MUPB's net position decreased by \$82,000 (.29 percent) to total net position of about \$28.05 million.
- MUPB's operating revenues decreased \$123,000 (1.21 percent), and operating expenses decreased by \$446,000 (4.14 percent) resulting in an operating loss of about \$243,000, improved from a \$566,000 operating loss in the prior year.
- The two most significant changes in net position was the decrease in MUPB's capital assets reflecting \$2.5 million of depreciation expense without substantial acquisitions of capital assets combined with normal and early payment of long term debt in the amount of \$2.2 million.

OVERVIEW OF THIS ANNUAL REPORT

This annual report consists of the management's discussion and analysis report, the independent auditor's report, the basic financial statements of MUPB, including notes to those statements, supplementary information and the independent auditor's reports on compliance.

NET POSITION

Our analysis begins with a summary of MUPB's Statement of Net Position, which is presented on Table A-1 followed by an explanation of the results. Changes in net position are presented in Table A-2, which is also followed by an explanation of the results.

NET POSITION, continued

Table A-1

Condensed Statement of Net Position

	Business-type Activities		
	FYE 6-30-2015	FYE 6-30-2014	Increase (Decrease)
Current and Other Assets	\$ 5,022,945	\$ 5,270,204	\$ (247,259)
Capital Assets	<u>40,112,606</u>	<u>42,085,372</u>	<u>(1,972,766)</u>
Total Assets	<u>45,135,551</u>	<u>47,355,576</u>	<u>(2,220,025)</u>
Long-Term Liabilities	15,053,692	17,333,134	(2,279,442)
Current Liabilities	<u>2,031,865</u>	<u>1,890,818</u>	<u>141,047</u>
Total Liabilities	17,085,557	19,223,952	(2,138,395)
Net Position:			
Invested in Capital Assets, net of debt	26,087,712	25,892,176	195,536
Restricted	1,456,339	1,528,492	(72,153)
Unrestricted	<u>505,943</u>	<u>710,956</u>	<u>(205,013)</u>
Total Net Position	<u>\$ 28,049,994</u>	<u>\$ 28,131,624</u>	<u>\$ (81,630)</u>

Net position may serve over time as one useful indicator of a government's financial condition. MUPB's net position decreased \$82,000 (.29%) compared to a much larger decrease in the prior year. In some years, substantial grant funds have been received to fund the increase the capital assets on the balance sheet offsetting the large amounts of depreciation. In the prior year, only \$6,000 of capital grants were received compared to \$345,000 in the current year. This change accounts for a substantial amount of the reduced change in net position from the year. The other significant factor is the effect of the increased water and sewer rates compared to the prior year. MUPB implemented GASB Statement 68 this year. With the new reporting change MUPB is allocated its proportionate share of the County Employees Retirement System's (CERS) net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$1,997,000. This directly impacted unrestricted net position reducing it to \$710,956 at June 30, 2014. Decisions regarding the allocations are made by the administrators of the pension plan, not by MUPB management. Please review Notes 8 and 11, as well as the required supplementary information after the notes to financial statements for more detailed information.

NET POSITION, continued

Table A-2

Condensed Statement of Activities

	Business-Type Activities		
	<u>FYE 6-30-2015</u>	<u>FYE 6-30-2014</u>	<u>Increase (Decrease)</u>
Revenues			
<u>Operating Revenues, pledged as security:</u>			
Gas Sales	\$ 3,776,922	\$ 4,555,580	\$ (778,658)
Water Sales	3,039,758	2,817,905	221,853
Sewer Sales	3,115,291	2,718,622	396,669
Penalties	63,380	57,692	5,688
Other Operating Revenues	80,332	48,476	31,856
Total operating revenues	<u>10,075,683</u>	<u>10,198,275</u>	<u>(122,592)</u>
Non-operating revenues			
Interest Income	57,370	55,338	2,032
Grants	344,640	5,925	338,715
Gain on sale of fixed assets		-	-
	<u>402,010</u>	<u>61,263</u>	<u>340,747</u>
Total revenues	<u>10,477,693</u>	<u>10,259,538</u>	<u>218,155</u>
Expenses			
Operating expenses:			
Gas	3,188,266	3,935,398	(747,132)
Water	2,699,830	2,548,972	150,858
Sewer	3,559,583	3,451,130	108,453
General and administrative costs	871,056	828,805	42,251
Total operating expenses	<u>10,318,735</u>	<u>10,764,305</u>	<u>(445,570)</u>
Non-operating revenues (expenses)			
Interest expense	(366,424)	(383,844)	17,420
Other non-operating expenses	3,886	(6,424)	10,310
Net non-operating revenues (expenses)	<u>(362,538)</u>	<u>(390,268)</u>	<u>27,730</u>
Income (loss) before contributions	<u>(203,580)</u>	<u>(895,035)</u>	<u>691,455</u>
Capital contributions	121,950	116,563	5,387
Change in net position	<u>(81,630)</u>	<u>(778,472)</u>	<u>696,842</u>
Net position - Beginning	<u>28,131,624</u>	<u>28,910,096</u>	<u>(778,472)</u>
Net position - Ending	<u>\$ 28,049,994</u>	<u>\$ 28,131,624</u>	<u>\$ (81,630)</u>

MUPB's total revenue increased by 2.1 percent (\$218,000) and the total operating expenses decreased 4.1% (\$446,000). The significant decrease in gas revenues was attributable to a substantial reduction in the price per unit over the prior year. The volume of gas sold and the corresponding margin was very

comparable to the prior year. When comparing the associated decrease in gas purchased with that revenue, the gas system contributed \$589,000 to the operating income for the year just slightly less than the prior year (\$31,500.) The second year of water and sewer rate increases went into effect during this fiscal year. When factoring in the increased expenses for each department, the net increase from the rate increases for each department were \$71,000 and \$288,000 respectively. Capital grants and contributions in aid of construction increased by \$344,000 and contributed toward the change in net position. Interest expense was reduced by about \$17,000 due to normal debt retirements plus certain bond prepayments during the prior fiscal year.

BUDGET HIGHLIGHTS

For the year ended June 30, 2015, the MUPB budget was amended for a capital grant that was not anticipated at the beginning of the year. Historically, the budget process is very rigorous and department supervisors are charged with creating a realistic workable budget. Instead of amending the budget throughout the year, the budget has continually been used as a tool to evaluate the ability of each department to make yearly plans and to identify those instances where the results have deviated from that plan. Gas sales/purchases and capital outlay/debt service/interest expense are areas that are often confusing or misunderstood in regard to the budget. Gas purchased for resale has continued to be volatile and it is difficult to accurately budget nearly a year in advance. The accompanying revenue is determined based on the current cost; however the budgeted margin between gas sales and cost of gas purchased has always been used to evaluate the budgeted amounts for consistency. MUPB uses a budget format at the request of the City that reconciles beginning cash carryover to ending cash carryover. Bond sinking fund, depreciation reserve payments, and capital outlay are budgeted instead of depreciation and interest expense. These amounts are then factored into the budget as depreciation (\$2,568,000) and interest expense (\$349,000). Also, MUPB has normally not reflected capital contributions in the budgeted amounts. Those differences will be explained in the narrative at the end of the worksheet. A comparison of the final budget to actual amounts is presented in Table A-3 that follows.

Table A-3

Condensed Statement of Activities - Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Charges for Services	\$ 9,555,226	\$ 9,931,971	\$ 376,745
Other Operating Revenues	104,500	143,712	39,212
Non-operating revenues	380,640	405,896	25,256
Tap Fees	120,550	121,950	1,400
Total Revenues	<u>\$ 10,160,916</u>	<u>\$ 10,603,529</u>	<u>\$ 442,613</u>

Condensed Statement of Activities - Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Operating expenses	\$ 10,159,304	\$ 10,318,735	\$ 159,431
Non-operating expenses	349,356	366,424	17,068
Total Expenditures	<u>\$ 10,508,660</u>	<u>\$ 10,685,159</u>	<u>\$ 176,499</u>

MUPB budgeted for a total of \$10.16 million in revenues and \$10.51 million in expenses for the year ended June 30, 2015, but these amounts do not reflect any amounts budgeted for grants or capital contributions other than the budget was amended for a \$344,640 sewer disaster recovery grant. Overall, this resulted in a variance in budgeted revenues in the amount of about \$443,000 more than budgeted. There are both over and under budgeted amounts that factor into this difference. Gas revenues are volatile due to seasonal variations and undeterminable per unit cost spikes during the winter months. This year's difference in budgeted to actual gas revenue resulted in \$247,000 of actual revenue over the budgeted amount. Water revenue finished the year over the budgeted amount at 103% of budget while sewer revenue was at 101% of budget resulting in \$85,000 and \$45,000 of revenue over budget respectively. In the analysis of budgeted expenses there is a net variance in operating expenses of about \$177,000 more spent than budget. Of that amount about \$57,000 is attributable to the direct natural gas costs related to the above increased gas revenues. The relationship of the increased gas revenue compared to the cost reflects the lower overall price of gas compared to the prior year with an increased consumption due to another very cold winter season especially in March. Other than this gas purchased variance the other significant change relates to extraordinary costs of sludge removal and lab testing amounting to about \$138,000.

CAPITAL ASSETS

MUPB has a total of \$86.5 million invested in capital assets used in providing utility services including buildings, land, utility treatment plants, utility distribution systems, vehicles and equipment. This represents an increase of \$.6 million (.7%) from the prior year.

Table A-4

Capital Assets at Year End Without Depreciation

	Business-Type Activities		
	<u>FYE 6-30-2015</u>	<u>FYE 6-30-2014</u>	<u>Change</u>
Land	\$ 184,404	\$ 184,404	\$ -
Buildings	910,316	874,676	35,640
Gas, water and sewer systems	82,800,554	82,289,110	511,444
Equipment	2,608,212	2,556,797	51,415
Construction in progress	<u>160</u>	<u>160</u>	<u>-</u>
Total Capital Assets	<u>\$ 86,503,646</u>	<u>\$ 85,905,147</u>	<u>\$ 598,499</u>

MUPB budgeted about \$856,000 in capital outlay for the year ended June 30, 2015. These items represent normal planned expenditures for utility system improvements.

DEBT

MUPB closed the year with \$14 million in short and long-term debt outstanding. There were no new loan funds advanced during the year. Normal debt retirement was made during the year in the amount

of about \$1.26 million. In addition to the normal repayment, there was an additional prepayment of long-term debt of \$910,000 from reserve funds restricted for that purpose only. Scheduled retirements for the next five years average \$924,000 per year.

Table A-5

Debt Outstanding at Year End

	Business-type Activities		
	<u>FYE 6-30-2015</u>	<u>FYE 6-30-2014</u>	<u>Change</u>
Revenue Bonds and Notes Payable	\$ 14,024,894	\$ 16,193,196	\$ (2,168,302)
Total Debt Outstanding	<u>\$ 14,024,894</u>	<u>\$ 16,193,196</u>	<u>\$ (2,168,302)</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Management considered many factors when formulating the budget for the year ended June 30, 2016. Since the budget is prepared several months before the end of the current fiscal year, there can always be considerable changes between budgets and results. Cash flow has been a high consideration while MUPB has been recovering from the 2010 flood damage. Some of the FEMA reimbursements have been received; however there is still a substantial amount of unreimbursed costs spent by MUPB from reserve funds. The current global economic conditions including the volatility of energy costs, which give an indirect impact to natural gas prices, oil, coal and all energy sources have been reflected in the affected accounts. Management uses various tools to the best of its abilities to lessen the severity of winter price spikes in natural gas for the benefit of the consumer. The price of gas affects the revenue but does not directly impact the margins of MUPB due to the rate structure as there is a fixed margin per unit of gas sold. Energy costs are anticipated to incur increases due to the sensitive nature of the industry and continuing environmental costs incurred by the producing companies, however natural gas prices are expected to stay relatively stable due to recent developments in northeast US sources of gas. The expectation is for water and sewer consumption to remain relatively stable. Since there is little growth for the water and sewer systems, some type of flexible rate structure may need to be implemented in order to maintain the costs of the current system. There will also be long-term planning needed in regard to future improvement or expansion of both the water and sewer plants due to reaching near capacity limits. There has been some recovery of commercial utility usage due to decreased natural gas costs and economic conditions in certain industries, however it is unknown if these increases are sustainable and economic conditions will most likely continue to affect the commercial and residential consumption.

CONTACTING MUPB'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of Morehead, customers, and creditors with a general overview of MUPB's finances and to show MUPB's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Holly McGrath-Rosas, General Manager at 135 S Wilson Ave., Morehead, KY 40351.

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF NET POSITION
 JUNE 30, 2015 AND 2014**

ASSETS	2015	(As restated) 2014
Unrestricted assets:		
Cash and cash equivalents	\$ 410,689	\$ 494,252
Accounts receivable:		
Customer accounts receivable, net	1,118,041	1,135,471
Inventory	379,273	423,597
Prepaid expenses	178,430	11,806
Total unrestricted assets	<u>2,086,433</u>	<u>2,065,126</u>
Restricted assets:		
Cash and cash equivalents	716,050	919,783
Investments	1,342,430	1,342,466
Interest receivable	16,364	17,751
Other receivables	607,562	666,078
Total restricted assets	<u>2,682,406</u>	<u>2,946,078</u>
Total current assets	<u>4,768,839</u>	<u>5,011,204</u>
Capital assets:		
Land	184,404	184,404
Buildings and improvements	910,316	874,676
Water, gas and sewer system	82,800,554	82,289,110
Equipment	2,608,212	2,556,797
Construction in progress	160	160
	<u>86,503,646</u>	<u>85,905,147</u>
Less: accumulated depreciation	<u>(46,391,040)</u>	<u>(43,819,775)</u>
Net capital assets	<u>40,112,606</u>	<u>42,085,372</u>
Total assets	<u>44,881,445</u>	<u>47,096,576</u>
DEFERRED OUTFLOWS		
Deferred pension contributions	<u>254,106</u>	<u>259,000</u>
Total deferred outflows of resources	<u>254,106</u>	<u>259,000</u>
Total assets and deferred outflows of resources	<u>\$ 45,135,551</u>	<u>\$ 47,355,576</u>

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF NET POSITION (CONCLUDED)
 JUNE 30, 2015 AND 2014**

LIABILITIES	2015	(As restated) 2014
Current liabilities (payable from unrestricted assets):		
Accounts payable	\$ 453,784	\$ 335,105
Accrued payroll liabilities	106,170	108,798
Other accrued liabilities	29,844	29,329
Total current liabilities (payable from unrestricted assets)	589,798	473,232
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	907,202	1,116,062
Customer deposits	295,960	286,572
Accrued interest payable	22,905	14,952
Total current liabilities (payable from restricted assets)	1,226,067	1,417,586
Long-term liabilities:		
Long-term debt, net of current portion	13,117,692	15,077,134
Net pension liability	1,936,000	2,256,000
Total long-term liabilities	15,053,692	17,333,134
Total liabilities	16,869,557	19,223,952
DEFERRED INFLOWS OF RESOURCES		
Deferred pension investment earnings	216,000	-
Total deferred inflows of resources	216,000	-
NET POSITION		
Net investment in capital assets	26,087,712	25,892,176
Restricted	1,456,339	1,528,492
Unrestricted	505,943	710,956
Total net position	28,049,994	28,131,624
Total liabilities, deferred inflows of resources, and net position	\$ 45,135,551	\$ 47,355,576

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

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF REVENUES, EXPENSES,
 AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
OPERATING REVENUES		
Gas revenue	\$ 3,776,922	\$ 4,555,580
Water revenue	3,039,758	2,817,905
Sewer revenue	3,115,291	2,718,622
Penalties	63,380	57,692
Other income	80,332	48,476
Total operating revenues	10,075,683	10,198,275
OPERATING EXPENSES		
Gas	3,188,266	3,935,398
Water	2,699,830	2,548,972
Sewer	3,559,583	3,451,130
Administrative	871,056	828,805
Total operating expenses	10,318,735	10,764,305
Operating loss	(243,052)	(566,030)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	57,370	55,338
Grants	344,640	5,925
Other revenues (expenses)	3,886	(6,424)
Interest expense	(366,424)	(383,844)
Total non-operating revenues (expenses)	39,472	(329,005)
INCOME BEFORE CONTRIBUTIONS	(203,580)	(895,035)
CAPITAL CONTRIBUTIONS	121,950	116,563
CHANGE IN NET POSITION	(81,630)	(778,472)
NET POSITION, BEGINNING OF YEAR, as restated	28,131,624	28,910,096
NET POSITION, END OF YEAR	\$ 28,049,994	\$ 28,131,624

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

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

CASH FLOWS FROM OPERATING

ACTIVITIES	2015	2014
Cash received from customers	\$ 9,949,401	\$ 10,048,353
Other cash receipts	143,712	106,168
Cash payments for gas supply	(3,019,540)	(3,423,981)
Cash payments for water supply	(1,347,851)	(1,238,714)
Cash payments for sewer supply	(1,384,899)	(1,311,831)
Cash payments to employees for services	(1,497,526)	(1,442,116)
Cash payments for administrative costs	(602,495)	(542,289)
Net cash provided by operating activities	<u>2,240,802</u>	<u>2,195,590</u>

CASH FLOWS FROM CAPITAL

AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(598,498)	(425,532)
Interest paid on revenue bonds	(358,471)	(423,435)
Principal paid on long-term debt	(2,168,302)	(2,671,196)
Increase (decrease) in customer deposits	9,388	2,857
Other expense	3,886	(6,423)
Capital grants received	525,106	171,358
Net cash used for capital and related financing activities	<u>(2,586,891)</u>	<u>(3,352,371)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	-	(596,181)
Interest income	58,793	50,821
Net cash provided by (used for) investing activities	<u>58,793</u>	<u>(545,360)</u>

Net increase (decrease) in cash and cash equivalents	(287,296)	(1,702,141)
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Cash and cash equivalents, beginning of year	<u>1,414,035</u>	<u>3,116,176</u>
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Cash and cash equivalents, end of year	<u>\$ 1,126,739</u>	<u>\$ 1,414,035</u>
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Cash and Cash Equivalents Reported As:

Unrestricted	\$ 410,689	\$ 494,252
Restricted	716,050	919,783
	<u>\$ 1,126,739</u>	<u>\$ 1,414,035</u>

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF CASH FLOWS (CONCLUDED)
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

RECONCILIATION OF OPERATING LOSS
 TO NET CASH PROVIDED BY
 OPERATING ACTIVITIES

	2015	2014
Operating loss	\$ (243,052)	\$ (566,030)
Adjustments:		
Depreciation	2,571,264	2,562,157
Net pension expense	(99,106)	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	17,430	(43,754)
(Increase) decrease in inventories	44,324	11,819
(Increase) decrease in prepaid expenses	(166,624)	158,637
Increase (decrease) in accounts payable and accrued wages	116,566	72,761
Net cash provided by operating activities	\$ 2,240,802	\$ 2,195,590

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

**MOREHEAD UTILITY PLANT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Morehead Utility Plant Board (“MUPB”), a business-type activity of the City of Morehead, Kentucky is presented to assist in understanding the financial statements. The financial statements and notes are representations of the MUPB’s management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Basis of Accounting

Morehead Utility Plant Board is a proprietary fund of the City of Morehead, Kentucky. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

The accounts are maintained on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or prepaid amounts have been utilized.

Investments

Investments are carried at cost. The majority of investments are restricted as to use as described in Note (3). Funds of Morehead Utility Plant Board are required to be invested in accordance with the investment policy adopted by MUPB. The investment policy allows MUPB to invest in those instruments authorized by KRS 66.480. The market values of investments in direct obligations of the United States at June 30, 2015 and 2014 were not materially different than the carrying amounts.

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a bank failure, Morehead Utility Plant Board’s deposits may not be returned to it. Morehead Utility Plant Board does not have a deposit policy for custodial credit risk. As of June 30, 2015 and 2014 \$ -0- and \$-0-, respectively, of Morehead Utility Plant Board’s bank balance of \$3,456,583 and \$2,919,634, respectively, was exposed to custodial credit risk, detailed as follows:

	2015	2014
Insured	\$ 2,442,142	\$ 2,541,636
Uninsured, uncollateralized	-	-
Collateral held by pledging bank’s trust department not in Morehead Utility Plant Board’s name	1,014,441	377,998
Total bank deposits	\$ 3,456,583	\$ 2,919,634

Accounts Receivable

Customer accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to customer accounts receivable. For the years ended June 30, 2015 and 2014, allowance for doubtful accounts were \$119,410 and \$111,043, respectively.

Inventories

Inventories are stated at the lower of cost or market on the basis of "first-in, first-out" (FIFO) inventory method.

Bond Issuance Costs

MUPB adopted GASB 65, *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2014. GASB 65 requires that debt issuance costs be expensed in the period they are incurred.

Budget

In June of 2014, MUPB adopted the annual management budget in the amount of \$10,508,660 for the fiscal year ended June 30, 2015, detailed as follows:

Gas	\$ 2,989,212
Water	1,966,839
Sewer	1,729,938
Administrative	904,943
Depreciation	<u>2,568,372</u>
Total operating expense	<u>10,159,304</u>
Interest expense	<u>349,356</u>
Total non-operating expense	<u>349,356</u>
Total expenses	<u>\$ 10,508,660</u>

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. The range of useful lives used in computing depreciation is:

<u>Classification</u>	<u>Range of Lives</u>
Buildings	33 1/3 years
Water plant	40 years
Water and gas distribution systems	33 1/3 years
Sewer system	33 1/3 - 40 years
Office equipment	5 - 10 years
Other equipment	5 - 10 years

Total depreciation expense was \$2,571,264 and \$2,562,157 for the years ended June 30, 2015 and 2014, respectively.

Capital and Operating Grants

Grants that are restricted to the purchase of property, plant and equipment are recorded as other income, per GASB 33. MUPB received \$344,640 and \$5,925 in grants for the years ended June 30, 2015 and 2014, respectively.

Infrastructure assets constructed by outside entities then taken over by MUPB are also recorded as other income per GASB 33. The total amount of the assets taken over were \$-0- and \$-0- for the years ended June 30, 2015 and 2014, respectively. These amounts constitute noncash transactions.

Gas, water and sewer tap fees are also recorded as capital contribution income, per GASB 33. These fees represent the increased value in property, plant and equipment resulting from the addition of customers to the utility distribution systems. The total amount of tap fees was \$121,950 and \$116,563 for the years ended June 30, 2015 and 2014, respectively.

Unbilled Gas Revenue and Gas Purchased

Customers are billed at the first of each month based on the cycle of gas meter readings. MUPB accrues revenue for gas distributed but not yet billed. The cost of gas is recorded during the period consumed.

Cash and Cash Equivalents

All cash and cash equivalents, unrestricted and restricted, are considered cash for the purpose of the statements of cash flows.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capitalized Interest

MUPB follows the policy of capitalizing interest as a component of construction cost. For the year ended June 30, 2015, total interest cost was \$366,424, of which \$-0- was capitalized. For the year ended June 30, 2014, total interest cost was \$383,844, of which \$-0- was capitalized.

Restricted and Unrestricted Resources

It is Morehead Utility Plant Board's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Unrestricted resources are used only after restricted resources have been depleted.

Recent Accounting Pronouncements

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any district-sponsored pension plans. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. This statement was implemented effective July 1, 2014. See Note 11.

In November 2013, the Governmental Accounting Standards Board issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement was implemented effective July 1, 2014. See Note 11.

(2) Reclassifications

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

(3) Restricted Assets

The restricted assets in the accompanying financial statements are restricted as to use by bond ordinance (See Note (4)) or external parties. A schedule of restricted assets at June 30, 2015 are as follows:

Description	Cash and Investments	Accrued Interest Receivable	Grants/Loans Receivable	Total
Assets restricted by grant agreements or bond ordinance:				
With paying agents	\$ 814,998	\$ 16,364	\$ -	\$ 831,362
Depreciation accounts	947,522	-	-	947,522
Construction reserves	-	-	607,562	607,562
Customer deposits	295,960	-	-	295,960
	<u>\$ 2,058,480</u>	<u>\$ 16,364</u>	<u>\$ 607,562</u>	<u>\$ 2,682,406</u>

A schedule of restricted assets at June 30, 2014 are as follows:

Description	Cash and Investments	Accrued Interest Receivable	Grants Receivable	Total
Assets restricted by grant agreements or bond ordinance:				
With paying agents	\$ 975,677	\$ 17,751	\$ -	\$ 993,428
Depreciation accounts	1,000,000	-	-	1,000,000
Construction reserves	-	-	666,078	666,078
Customer deposits	286,572	-	-	286,572
	<u>\$ 2,262,249</u>	<u>\$ 17,751</u>	<u>\$ 666,078</u>	<u>\$ 2,946,078</u>

Investments

At June 30, 2015, MUPB had the following investments and maturities:

Investment Type -	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Securities	\$ 1,342,430	\$ -	\$ -	\$ 1,022,361	\$ 320,069

At June 30, 2014, MUPB had the following investments and maturities:

Investment Type -	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Securities	\$ 1,342,466	\$ -	\$ -	\$ 1,022,397	\$ 320,069

Interest Rate Risk. MUPB does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. MUPB may invest the monies in interest-bearing bonds of any county, urban-county government or city of the first, second or third class in the State of Kentucky, or in any securities in which trustees are permitted to invest trust funds under the laws of the State of Kentucky, including participation in a local government pension investment fund created pursuant to KRS 95.895.

(4) Long-Term Debt

Morehead Utility Plant Board's bonded indebtedness and other long-term notes at June 30, 2015 and 2014 are summarized as follows:

	Rate	Original Issue	2015	2014
1966 issue	4.375-5.25%	\$ 1,715,000	\$ 15,000	\$ 20,000
KIA loan (RCSD)	1.90%	3,130,152	-	186,830
Rural development series 1998A	4.50%	1,138,000	-	910,000
Rural development series 2001A	3.25%	4,500,000	3,699,000	3,784,000
KIA wastewater treatment plant	1.00%	7,189,123	4,130,770	4,484,303
RUS wastewater treatment plant	4.13%	1,500,000	1,331,000	1,353,000
KIA water plant expansion and upgrade	1.80%	5,500,000	2,296,353	2,579,871
KIA Big Woods Project	1.00%	801,203	303,976	322,020
KIA Phase IV Project	1.00%	1,293,013	519,690	548,521
KIA WWTP	1.00%	3,000,000	1,729,105	2,004,651
			<u>14,024,894</u>	<u>16,193,196</u>
Less current maturities			(907,202)	(1,116,062)
Total long term debt			<u>\$ 13,117,692</u>	<u>\$ 15,077,134</u>

Morehead Utility Plant Board's bonded indebtedness and other long-term notes at June 30, 2015 and 2014 are detailed as follows:

	Balance June 30, 2013	Advances	Repayments/ Principal Grants	Balance June 30, 2014	Advances	Repayments/ Principal Grants	Balance June 30, 2015
1966 issue	\$ 20,000	\$ -	\$ -	\$ 20,000	\$ -	\$ (5,000)	\$ 15,000
KRWFC series 2003	1,187,100	-	(1,187,100)	-	-	-	-
KRWFC series 2004	406,000	-	(406,000)	-	-	-	-
KIA loan (RCSD)	370,160	-	(183,330)	186,830	-	(186,830)	-
RD - series 1998A	931,000	-	(21,000)	910,000	-	(910,000)	-
RD - series 2001A	3,866,000	-	(82,000)	3,784,000	-	(85,000)	3,699,000
KIA WWTP	4,834,327	-	(350,024)	4,484,303	-	(353,532)	4,130,771
RUS WWTP	1,374,500	-	(21,500)	1,353,000	-	(22,000)	1,331,000
KIA water plant expansion	2,858,354	-	(278,483)	2,579,871	-	(283,518)	2,296,353
KIA Big Woods	339,885	-	(17,865)	322,020	-	(18,044)	303,976
KIA Phase IV	577,066	-	(28,545)	548,521	-	(28,832)	519,689
KIA WWTP	2,100,000	-	(95,349)	2,004,651	-	(275,546)	1,729,105
Total	<u>\$18,864,392</u>	<u>\$ -</u>	<u>\$(2,671,196)</u>	<u>\$16,193,196</u>	<u>\$ -</u>	<u>\$(2,168,302)</u>	<u>\$14,024,894</u>

Morehead Utility Plant Board's bonded indebtedness current and long-term balances at June 30, 2015 are detailed as follows:

	Current	Long-term
1966 issue	\$ 15,000	\$ -
RD series 2001A	88,000	3,611,000
KIA WWTP	357,077	3,773,693
RUS WWTP	23,000	1,308,000
KIA water plant expansion and upgrade	288,646	2,007,707
KIA-Big Woods	18,225	285,751
KIA Phase IV	29,120	490,570

KIA- WWTP	88,134	1,640,971
Total	<u>\$ 907,202</u>	<u>\$ 13,117,692</u>

The long-term debt service requirements are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 907,202	\$ 298,960	\$ 1,206,162
2017	905,858	283,428	1,189,286
2018	921,159	268,062	1,189,221
2019	934,606	252,387	1,186,993
2020	950,201	236,406	1,186,607
2021-2025	4,148,141	947,669	5,095,810
2026-2030	2,000,144	657,685	2,657,829
2031-2035	1,373,583	448,217	1,821,800
2036-2040	1,193,500	247,275	1,440,775
2041-2044	690,500	46,798	737,298
Total	<u>\$ 14,024,894</u>	<u>\$ 3,686,887</u>	<u>\$ 17,711,781</u>

The 1966 Utility revenue refunding and improvement bonds are secured by a pledge of gross revenues from the operations of the water, gas and sewer system. The 1966 bonds maturing on or after December 1, 1977, are subject to redemption prior to maturity. The bonds may be called on any interest date on or after December 1, 1976, at par plus accrued interest and a premium of 1% to 3% of the par value.

Effective June 1, 1995, Rowan County Sanitation District was merged into MUPB. Consequently, MUPB assumed the District's Kentucky Infrastructure Authority loan. This loan is secured by a pledge of revenues. The issue amount of the loan was \$3,130,152 bearing an interest rate of 1.9% to be repaid over 20 years. This loan was paid off during 2014-2015.

On July 2, 1998, MUPB borrowed the aggregate principal amount of \$1,138,000 of City of Morehead Sewer System Revenue Bonds, Series 1998 A Bonds. The purpose of the issue was for financing the cost of the construction of a new sewer collection system for the residents of the City of Salt Lick and the surrounding area. The bonds are secured by a pledge of the revenues. The bonds will mature on January 1 in each of the years 2000 through 2037 and bears an interest rate of 4.50%. These bonds were paid off early during 2014-2015.

On June 1, 2004, Morehead Utility Plant Board obtained a loan from the Kentucky Infrastructure Authority. The issue amount of the loan was \$7,189,123, which was made to finance the construction of the Wastewater Treatment Plant expansion. The loan is secured by a pledge of revenues, bears an interest rate of 1.0% and has a life of 20 years. This loan agreement requires that deposits totaling \$10,000 be made to a replacement reserve fund until such deposits equal \$100,000. The balance in the reserve is \$101,453.

On April 23, 2004, Morehead Utility Plant Board obtained a loan from the United States Department of Agriculture and Rural Utilities Service (RUS). The issue amount of the loan was \$1,500,000, which was made to finance the construction of the Wastewater Treatment Plant expansion. The loan is secured by a pledge of revenues, bears an interest rate of 4.13%, and has a life of 20 years.

On May 1, 2001, Morehead Utility Plant Board obtained a loan from Kentucky Infrastructure Authority for the Water Treatment Plant Expansion and System Upgrade. The issue amount of the loan was \$5,500,000. This loan is secured by a pledge of revenues, bears an interest rate of 1.8%, and has a life of 20 years.

On March 28, 2002, Morehead Utility Plant Board borrowed the aggregate principal amount of \$4,500,000 of City of Morehead Water System Revenue Bonds, Series 2001, consisting of Series A Bonds. The purpose of the issue was for permanent financing of construction costs associated with the Water Treatment Plant Expansion and System Upgrade. The bonds are

secured by a pledge of the revenues. The bonds require an annual installment beginning December 1, 2004, and in each consecutive year until December 1, 2041. The Series A Bonds bear an interest rate of 3.25%.

On January 1, 2010, Morehead Utility Plant Board obtained a loan from Kentucky Infrastructure Authority for the Big Woods Project. The issue amount of the loan was \$801,203 with \$417,427 forgiven on completion of the project in 2011. This loan is secured by a pledge of revenues, bears an interest rate of 1.0%, and has a life of 20 years.

On January 1, 2011, Morehead Utility Plant Board obtained a loan from Kentucky Infrastructure Authority for the Waste Water Treatment Plant. The issue amount of the loan was \$3,000,000 with \$830,990 forgiven on completion of the project in 2012. This loan is secured by a pledge of revenues, bears an interest rate of 1.0%, and has a life of 20 years.

On January 1, 2010, Morehead Utility Plant Board obtained a loan from Kentucky Infrastructure Authority for the Phase IV Project. The issue amount of the loan was \$1,293,013. This loan is secured by a pledge of revenues, bears an interest rate of 1.0%, and has a maturity life of 20 years from the completion date of the project.

(5) Net Position

In the proprietary funds financial statements, net position is reported in three categories: Net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net investment in capital assets does not include the unspent proceeds of capital debt. Restricted net position represents net position restricted by parties outside of MUPB (such as creditors, grantors, contributors, laws, and regulations of other governments) and includes unspent proceeds of bonds issued to acquire or construct capital assets. MUPB's other restricted net position is temporarily restricted (ultimately expendable) assets. All other net position is considered unrestricted.

The balance of net investment in capital assets represents funds that have been used to acquire pump stations, storage facilities, meter stations, etc., constructed and operated by Morehead Utility Plant Board, net of outstanding debt. The balance was \$26,087,712 and \$25,892,176 at June 30, 2015 and 2014, respectively.

MUPB had a balance of \$1,456,339 and \$1,528,492 at June 30, 2015 and 2014, respectively, for restricted net position that is required to be reserved in accordance with bond ordinances or Board designations.

MUPB had a balance of \$505,943 and \$710,956 at June 30, 2015 and 2014, respectively, for unrestricted net position.

(6) Nonmonetary Transactions

MUPB accepts utility installations built by contractors upon inspection. The utility installations are added to property, plant and equipment and to other income, per GASB 33, at cost.

(7) Property, Plant and Equipment

A detail of changes in property, plant and equipment is as follows:

	Balance June 30, 2013	Additions	Reclassifications and Disposals	Balance June 30, 2014	Additions	Reclassifications and Disposals	Balance June 30, 2015
Land	\$ 184,404	\$ -	\$ -	\$ 184,404	\$ -	\$ -	\$ 184,404
Buildings	874,676	-	-	874,676	35,640	-	910,316
Water, gas and sewer	81,856,976	432,134	-	82,289,110	511,444	-	82,800,554

Construction in progress	11,392	-	11,232	160	-	-	160
Equipment	2,552,167	4,630	-	2,556,797	51,415	-	2,608,212
	85,479,615	436,764	11,232	85,905,147	598,499	-	86,503,646
Accumulated depreciation	(41,257,618)	(2,562,157)	-	(43,819,775)	(2,571,265)	-	(46,391,040)
Total property, plant and equipment, net	\$ 44,221,997	\$ (2,125,393)	\$ 11,232	\$ 42,085,372	\$ (1,972,766)	\$ -	\$ 40,112,606

(8) Pension Plan

Plan description: Substantially all full-time employees of MUPB participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 17.67% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2015, MUPB reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. MUPB's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2014. At June 30, 2014, MUPB's proportion was .059663%.

For the year ended June 30, 2015, MUPB recognized pension expense of \$155,000. At June 30, 2015, MUPB reported deferred outflows of resources for MUPB contributions subsequent to the measurement date of \$254,106 and deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$216,000.

MUPB contributions subsequent to the measurement date of \$254,106 are reported as deferred outflows of resources and 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 CERS will be recognized in pension expense as follows:

Year	
2016	\$ 43,200
2017	43,200
2018	43,200

2019	43,200
2020	43,200
	<u>\$ 216,000</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2014. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 - June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to 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 Annuity Mortality Table set forward five years is used for the period after disability retirement. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. 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, net of investment expense, and inflation) 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 timeframe. 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 long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.0%	8.45%
International Equity	22.0%	8.85%
Emerging Market Equity	5.0%	10.50%
Private Equity	7.0%	11.25%
Real Estate	5.0%	7.00%

Core U.S. Fixed Income	10.0%	5.25%
High Yield Fixed Income	5.0%	7.25%
Non US Fixed Income	5.0%	5.5%
Commodities	5.0%	7.75%
TIPS	5.0%	5.00%
Cash	1.0%	3.25%
	<u>100.0%</u>	

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 contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

Sensitivity of MUPB's proportionate share of the net pension liability to changes in the discount rate: The following presents MUPB's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what MUPB'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>
District's proportionate share of the net pension liability	\$ 2,547,000	\$ 1,936,000	\$ 1,395,000

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2015 and 2014, MUPB had payables to CERS in the amount of \$30,854 and \$24,827, respectively, for June's covered payroll with contributions required to be paid in July.

(9) Commitments and Contingencies

Purchased Gas Contract

Due to the volatile nature of gas pricing and contracts with gas suppliers, MUPB has entered into an agreement with a supplier in order to secure and maintain adequate supplies of gas at the lowest possible prices. However, due to government regulation, confusion among the suppliers as to whom actually supplied the gas (since it comes through the same line), and other billing errors, it is not uncommon to be billed or refunded amounts for gas supplied in prior months. These

amounts are sometimes significant and the accounting policy is to record these amounts as adjustments to current gas purchases or revenues when billed or received. In an effort to stabilize availability and cost of purchased natural gas, on September 1, 1993, MUPB entered into a sales agreement with Tennessee Gas Pipeline Company. This contract allows MUPB to purchase a maximum of 2,600 decatherms (Dth) per day at a rate as stated in the current sellers rate Schedule GS-2, filed with the Federal Energy Regulatory Commission.

Water Purchase Contract

MUPB has entered into an agreement with Rowan Water, Inc. and Bath County Water District to provide potable treated water. The agreement is for a term of 40 years, through November 2048, and provides for Rowan Water, Inc. and Bath County District to receive 33.8% and 25.8%, respectively, of the capacity of the plant constructed under terms of this agreement.

(10) Risk Management

Morehead Utility Plant Board 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, MUPB also carries commercial insurance for all other risks of loss such as workers compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Change in Accounting Principle

Net position as of June 30, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Net Position as previously reported at June 30, 2014	\$ 30,128,624
Prior period adjustment implementation of GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(2,256,000)
Deferred outflows MUPB contributions made during fiscal year 2014	<u>259,000</u>
Total prior period adjustment	<u>(1,997,000)</u>
Net position as restated, June 30, 2014	<u><u>\$ 28,131,624</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30, 2015**

		Reporting Fiscal Year (Measurement Date)
		2015
		(2014)
		<hr/>
Board's proportion of the net pension liability		0.060%
Board's proportionate share of the net pension liability	\$	1,936,000
Board's covered-employee payroll	\$	1,368,777
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll		141.440%
Plan fiduciary net position as a percentage of the total pension liability		66.800%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

CITY OF MOREHEAD, KENTUCKY
MOREHEAD UTILITY PLANT BOARD
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 254,106	\$ 258,562	\$ 276,170	\$ 260,142	\$ 235,245
Contributions in relation to the contractually required contribution	<u>254,106</u>	<u>258,562</u>	<u>276,170</u>	<u>260,142</u>	<u>235,245</u>
Contribution deficiency (excess)	-	-	-	-	-
Board's covered-employee payroll	\$ 1,438,064	\$ 1,368,777	\$ 1,412,633	\$ 1,372,059	\$ 1,389,515
Board's proportionate share of the contractually required contributions as a percentage of its covered-employee payroll	17.67%	18.89%	19.55%	18.96%	16.93%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF MOREHEAD, KENTUCKY
MOREHEAD UTILITY PLANT BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

(1) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2015 and 2016, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	29 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

SUPPLEMENTAL INFORMATION

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Revenue Refunding and Improvement Bonds Dated December 1, 1966
June 30, 2015

Fiscal Year Ending June 30	Principal Due Dec. 1	Interest		Total Requirements	Principal Outstanding at End of Year
		December 1	June 1		
2016	\$ 15,000	\$ 487		\$ 15,487	\$ -
Total	<u>\$ 15,000</u>	<u>\$ 487</u>	<u>\$ -</u>	<u>\$ 15,487</u>	

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Rural Development Revenue Bonds, Series 2001A
June 30, 2015

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2016	\$ 88,000	\$ 118,788	\$ 206,788	\$ 3,611,000
2017	90,000	115,895	205,895	3,521,000
2018	94,000	112,905	206,905	3,427,000
2019	96,000	109,818	205,818	3,331,000
2020	100,000	106,633	206,633	3,231,000
2021	103,000	103,334	206,334	3,128,000
2022	106,000	99,938	205,938	3,022,000
2023	110,000	96,428	206,428	2,912,000
2024	113,000	92,804	205,804	2,799,000
2025	117,000	89,066	206,066	2,682,000
2026	121,000	85,199	206,199	2,561,000
2027	125,000	81,201	206,201	2,436,000
2028	129,000	77,074	206,074	2,307,000
2029	133,000	72,816	205,816	2,174,000
2030	137,000	68,429	205,429	2,037,000
2031	142,000	63,895	205,895	1,895,000
2032	146,000	59,215	205,215	1,749,000
2033	151,000	54,389	205,389	1,598,000
2034	156,000	49,400	205,400	1,442,000
2035	161,000	44,249	205,249	1,281,000
2036	166,000	38,935	204,935	1,115,000
2037	172,000	33,443	205,443	943,000
2038	177,000	27,771	204,771	766,000
2039	183,000	21,921	204,921	583,000
2040	189,000	15,876	204,876	394,000
2041	195,000	9,636	204,636	199,000
2042	199,000	3,230	202,230	-
Total	\$ 3,699,000	\$ 1,852,288	\$ 5,551,288	
<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2016	\$ 88,000	\$ 118,788	\$ 206,788	
2017	90,000	115,895	205,895	
2018	94,000	112,905	206,905	
2019	96,000	109,818	205,818	
2020	100,000	106,633	206,633	
2021 - 2025	549,000	481,570	1,030,570	
2026 - 2030	645,000	384,719	1,029,719	
2031 - 2035	756,000	271,148	1,027,148	
2036 - 2040	887,000	137,946	1,024,946	
2041 - 2042	394,000	12,866	406,866	
	\$ 3,699,000	\$ 1,852,288	\$ 5,551,288	

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority Wastewater Revolving Loan Fund Program Fund A
June 30, 2015

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2016	\$ 357,077	\$ 43,961	\$ 401,038	\$ 3,773,693
2017	360,656	40,417	401,073	3,413,037
2018	364,272	36,838	401,110	3,048,765
2019	367,924	33,222	401,146	2,680,841
2020	371,612	29,570	401,182	2,309,229
2021	375,338	25,882	401,220	1,933,891
2022	379,101	22,156	401,257	1,554,790
2023	382,901	18,394	401,295	1,171,889
2024	386,740	14,593	401,333	785,149
2025	390,617	10,754	401,371	394,532
2026	394,532	6,877	401,409	-
Total	<u>\$ 4,130,770</u>	<u>\$ 282,664</u>	<u>\$ 4,413,434</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 357,077	\$ 43,961	\$ 401,038
2017	360,656	40,417	401,073
2018	364,272	36,838	401,110
2019	367,924	33,222	401,146
2020	371,612	29,570	401,182
2021 - 2025	1,914,697	91,779	2,006,476
2026	394,532	6,877	401,409
	<u>\$ 4,130,770</u>	<u>\$ 282,664</u>	<u>\$ 4,413,434</u>

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Rural Utilities Service Loan
June 30, 2015

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2016	\$ 23,000	\$ 59,895	\$ 82,895	\$ 1,308,000
2017	24,500	58,860	83,360	1,283,500
2018	25,500	57,758	83,258	1,258,000
2019	26,500	56,610	83,110	1,231,500
2020	27,500	55,418	82,918	1,204,000
2021	29,000	54,180	83,180	1,175,000
2022	30,000	52,875	82,875	1,145,000
2023	31,500	51,525	83,025	1,113,500
2024	33,000	50,108	83,108	1,080,500
2025	34,500	48,623	83,123	1,046,000
2026	36,000	47,070	83,070	1,010,000
2027	37,500	45,450	82,950	972,500
2028	39,500	43,763	83,263	933,000
2029	41,000	41,985	82,985	892,000
2030	43,000	40,140	83,140	849,000
2031	45,000	38,205	83,205	804,000
2032	47,000	36,180	83,180	757,000
2033	49,000	34,065	83,065	708,000
2034	51,500	31,860	83,360	656,500
2035	53,500	29,543	83,043	603,000
2036	56,000	27,135	83,135	547,000
2037	58,500	24,615	83,115	488,500
2038	61,000	21,983	82,983	427,500
2039	64,000	19,238	83,238	363,500
2040	67,000	16,358	83,358	296,500
2041	70,000	13,343	83,343	226,500
2042	73,000	10,193	83,193	153,500
2043	76,000	6,908	82,908	77,500
2044	77,500	3,488	80,988	-
Total	\$ 1,331,000	\$ 1,077,374	\$ 2,408,374	
<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2016	\$ 23,000	\$ 59,895	\$ 82,895	
2017	24,500	58,860	83,360	
2018	25,500	57,758	83,258	
2019	26,500	56,610	83,110	
2020	27,500	55,418	82,918	
2021 - 2025	158,000	257,311	415,311	
2026 - 2030	197,000	218,408	415,408	
2031 - 2035	246,000	169,853	415,853	
2036 - 2040	306,500	109,329	415,829	
2041 - 2044	296,500	33,932	330,432	
	\$ 1,331,000	\$ 1,077,374	\$ 2,408,374	

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority Revolving Loan Fund Program Fund F
June 30, 2015

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1 & June 1</u>	<u>Interest Due Dec. 1 & June 1</u>	<u>Servicing Fee</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2016	\$ 288,646	\$ 40,041	\$ 5,561	\$ 334,248	\$ 2,007,707
2017	293,864	34,822	4,836	333,522	1,713,843
2018	299,178	29,509	4,099	332,786	1,414,665
2019	304,587	24,100	3,347	332,034	1,110,078
2020	310,094	18,592	2,582	331,268	799,984
2021	315,700	12,985	1,804	330,489	484,284
2022	321,409	7,277	1,011	329,697	162,875
2023	162,875	1,466	204	164,545	-
Total	<u>\$ 2,296,353</u>	<u>\$ 168,792</u>	<u>\$ 23,444</u>	<u>\$ 2,488,589</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 288,646	\$ 45,602	\$ 334,248
2017	293,864	39,658	333,522
2018	299,178	33,608	332,786
2019	304,587	27,447	332,034
2020	310,094	21,174	331,268
2021-2023	799,984	24,747	824,731
	<u>\$ 2,296,353</u>	<u>\$ 192,236</u>	<u>\$ 2,488,589</u>

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority Big Woods Project
June 30, 2015

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1 & June 1</u>	<u>Interest Due Dec. 1 & June 1</u>	<u>Servicing Fee</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2016	\$ 18,225	\$ 2,994	\$ 599	\$ 21,818	\$ 285,751
2017	18,408	2,812	562	21,782	267,343
2018	18,592	2,627	525	21,744	248,751
2019	18,779	2,441	488	21,708	229,972
2020	18,967	2,252	451	21,670	211,005
2021	19,157	2,062	412	21,631	191,848
2022	19,349	1,870	374	21,593	172,499
2023	19,543	1,676	335	21,554	152,956
2024	19,739	1,480	296	21,515	133,217
2025	19,937	1,283	257	21,477	113,280
2026	20,137	1,083	217	21,437	93,143
2027	20,339	881	176	21,396	72,804
2028	20,543	677	135	21,355	52,261
2029	20,748	471	94	21,313	31,513
2030	20,956	263	53	21,272	10,557
2031	10,557	53	11	10,621	-
Total	<u>\$ 303,976</u>	<u>\$ 24,925</u>	<u>\$ 4,985</u>	<u>\$ 333,886</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 18,225	\$ 3,593	\$ 21,818
2017	18,408	3,374	21,782
2018	18,592	3,152	21,744
2019	18,779	2,929	21,708
2020	18,967	2,703	21,670
2021 - 2025	97,725	10,045	107,770
2026 - 2030	102,723	4,050	106,773
2031	10,557	64	10,621
	<u>\$ 303,976</u>	<u>\$ 29,910</u>	<u>\$ 333,886</u>

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority Phase IV
June 30, 2015

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1 & June 1</u>	<u>Interest Due Dec. 1 & June 1</u>	<u>Servicing Fee</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2016	\$ 29,120	\$ 5,124	\$ 1,025	\$ 35,269	\$ 490,570
2017	29,412	4,832	966	35,210	461,158
2018	29,707	4,538	908	35,153	431,451
2019	30,005	4,240	848	35,093	401,446
2020	30,306	3,939	788	35,033	371,140
2021	30,610	3,635	727	34,972	340,530
2022	30,916	3,328	666	34,910	309,614
2023	31,226	3,018	604	34,848	278,388
2024	31,539	2,705	541	34,785	246,849
2025	31,856	2,389	478	34,723	214,993
2026	32,175	2,070	412	34,657	182,818
2027	32,498	1,747	349	34,594	150,320
2028	32,823	1,421	284	34,528	117,497
2029	33,152	1,092	219	34,463	84,345
2030	33,485	760	152	34,397	50,860
2031	33,820	424	85	34,329	17,040
2032	17,040	86	17	17,143	-
Total	<u><u>\$ 519,690</u></u>	<u><u>\$ 45,348</u></u>	<u><u>\$ 9,069</u></u>	<u><u>\$ 574,107</u></u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 29,120	\$ 6,149	\$ 35,269
2017	29,412	5,798	35,210
2018	29,707	5,446	35,153
2019	30,005	5,088	35,093
2020	30,306	4,727	35,033
2021 - 2025	156,147	18,091	174,238
2026 - 2030	164,133	8,506	172,639
2031 - 2032	50,860	612	51,472
	<u><u>\$ 519,690</u></u>	<u><u>\$ 54,417</u></u>	<u><u>\$ 574,107</u></u>

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority Waste Water Treatment Plant Project
June 30, 2015

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1 & June 1</u>	<u>Interest Due Dec. 1 & June 1</u>	<u>Servicing Fee</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2016	\$ 88,134	\$ 17,071	\$ 3,414	\$ 108,619	\$ 1,640,971
2017	89,018	16,188	3,238	108,444	1,551,953
2018	89,910	15,296	3,059	108,265	1,462,043
2019	90,811	14,394	2,879	108,084	1,371,232
2020	91,722	13,484	2,697	107,903	1,279,510
2021	92,641	12,564	2,513	107,718	1,186,869
2022	93,570	11,635	2,327	107,532	1,093,299
2023	94,508	10,697	2,139	107,344	998,791
2024	95,456	9,750	1,950	107,156	903,335
2025	96,413	8,793	1,758	106,964	806,922
2026	97,379	7,826	1,565	106,770	709,543
2027	98,355	6,850	1,370	106,575	611,188
2028	99,342	5,864	1,173	106,379	511,846
2029	100,337	4,868	974	106,179	411,509
2030	101,343	3,863	772	105,978	310,166
2031	102,359	2,846	569	105,774	207,807
2032	103,385	1,820	364	105,569	104,422
2033	104,422	784	157	105,363	-
Total	<u><u>\$ 1,729,105</u></u>	<u><u>\$ 164,593</u></u>	<u><u>\$ 32,918</u></u>	<u><u>\$ 1,926,616</u></u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 88,134	\$ 20,485	\$ 108,619
2017	89,018	19,426	108,444
2018	89,910	18,355	108,265
2019	90,811	17,273	108,084
2020	91,722	16,181	107,903
2021 - 2025	472,588	64,126	536,714
2026 - 2030	496,756	35,125	531,881
2031 - 2033	310,166	6,540	316,706
	<u><u>\$ 1,729,105</u></u>	<u><u>\$ 197,511</u></u>	<u><u>\$ 1,926,616</u></u>



**Kelley Galloway
Smith Goolsby, PSC**

Certified Public Accountants and Advisors

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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**

Board Members
Morehead Utility Plant Board
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 Morehead Utility Plant Board (the "Board"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 28, 2015.

Internal Control Over Financial Reporting

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

Kelley Dalloway Smith Goolsby, PSC

December 28, 2015
Ashland, Kentucky