

MOREHEAD RECREATION, TOURISM  
AND CONVENTION COMMISSION  
Morehead, Kentucky

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS  
for the year ended June 30, 2016

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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, 2016, 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, 2016, 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 Information*

The schedule of the Commission's proportionate share of net pension liability and schedule of Commission contributions 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 schedule of the Commission's proportionate share of net pension liability and schedule of Commission contributions are 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 September 15, 2016, 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

September 15, 2016

This report contains 30 pages.



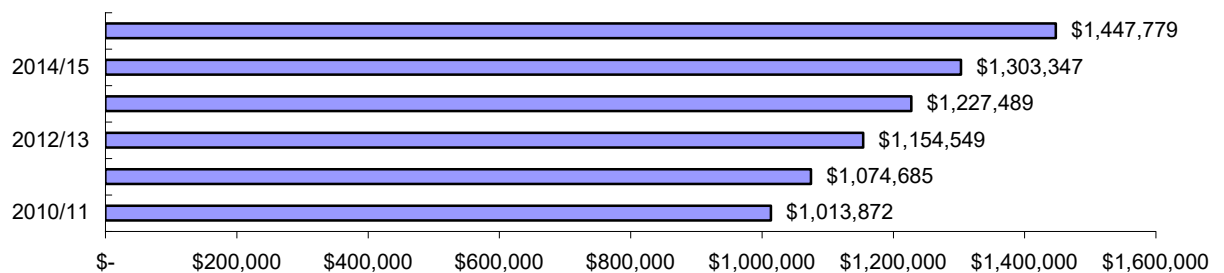
**Management Discussion and Analysis (MD&A)  
Fiscal Year Ending June 30, 2016**

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 year ended (FYE) June 30, 2016. We encourage readers to read the information presented here in conjunction with the auditor's report on pages 1-2 and the Commission's financial statements, that begin to appear on page 10.

**Financial Highlights**

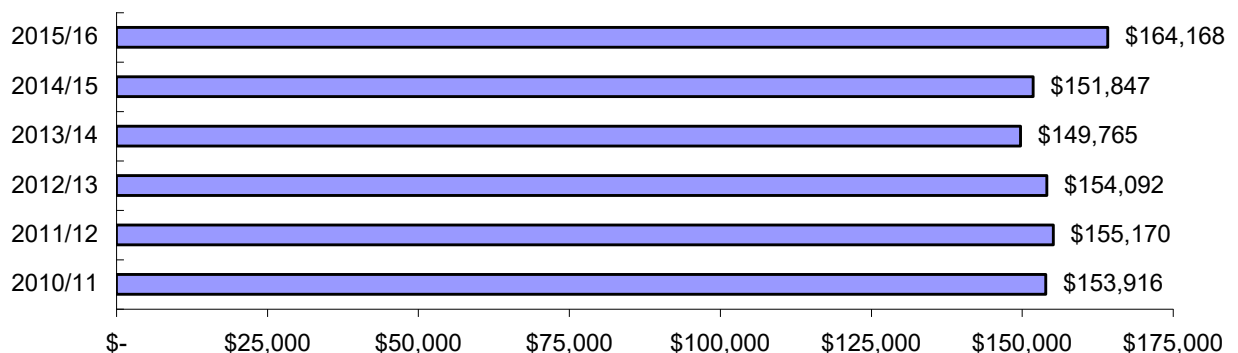
- Restaurant tax collections have increased \$144,432 (or 11.08%) to \$1,447,779 from \$1,303,347 in the prior year. A historical graph follows:

**RESTAURANT TAX**



- Hotel tax collections have increased \$12,321 (or 7.5%) to \$164,168 from \$151,847 in the prior year. A historical graph follows:

**HOTEL/MOTEL TAX**



Revenues from Conference Center operations increased \$29,574 (or 24.0%) to \$123,329 from 93,755 the prior year.

- General and Administrative Expenses decreased \$39,271 (or 4.6%) to \$809,437 from \$848,708 in the prior year.
- The Commission's Noncurrent Liabilities decreased \$153,891 (or 2.2%) to \$6,785,549 from \$6,939,440 in the prior year.
- The Commission's net position increased \$115,610 (or 9.9%) to \$1,162,581 from \$1,046,971 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 kinds 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 users 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 pages 15 through 23 of this report. After the notes, supplemental information is provided to show details about the Commission's individual funds.

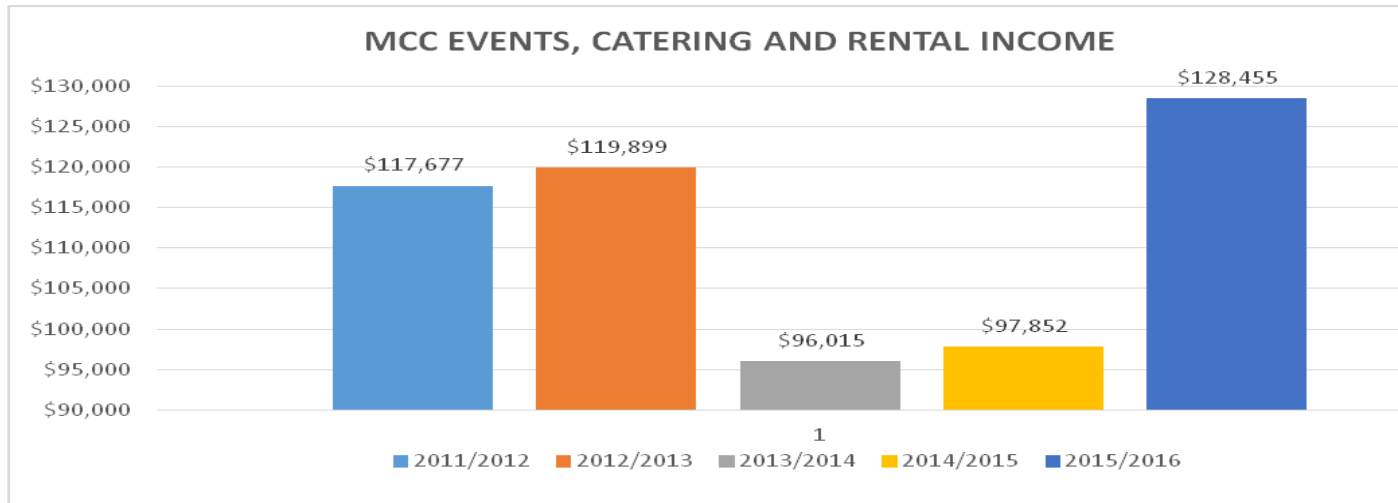
In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information required by the Comptroller General of the United States.

## **Overview of the Commission**

### **Morehead Conference Center overview**

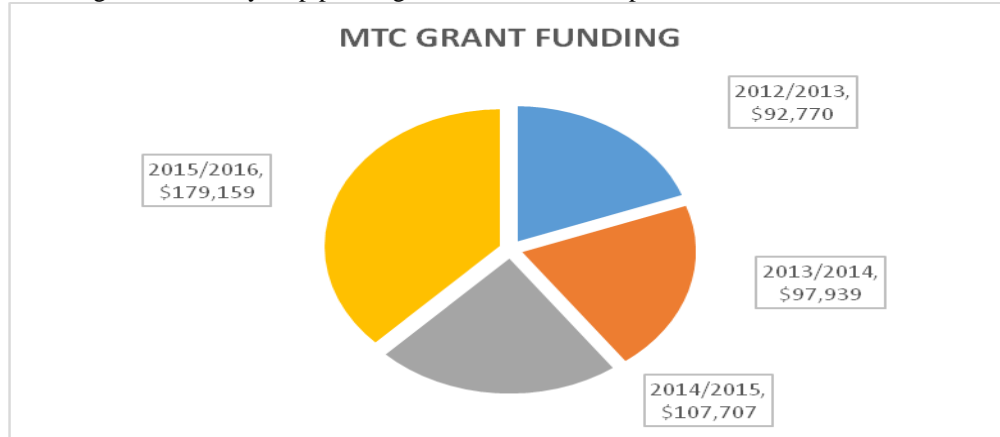
Morehead Conference Center continues to be an asset for our region. It is considered the regional meeting hub for all surrounding counties. Much of the advertising for the facility is word-of-mouth. Our returning customers' experiences is our greatest strength.

To build on our technology base, we completed phase two of our audio system upgrade. We also expanded to year three and added in-ceiling projectors to the Eagle, Hardwood and Cave Run rooms and to Collins Hall East. In an effort to decrease our carbon footprint, we added tint to the outside windows. We are already seeing a decrease in our heating and cooling expenses. It has also created a more temperature-friendly environment for clients using the front and side galleries for tradeshow or registration areas. The Kentucky Proud Expo continues to be a success. This year we turned the expo over to our intern event planner. The event grew from year one with twelve vendors to year two with thirty-six vendors.



#### Morehead Tourism overview

Morehead Tourism continues to grow in the investment we make in the community. Our continued support of over \$17,000 to the annual Morehead Freedom Fest festivities has resulted in a huge attendance draw. We also provided over \$14,000 for the annual Morehead Arts and Eats Festival with total ticket sales of 22,553. Our new district ranger is getting very acquainted to the area and has been very active in all Morehead Trail Town initiatives. We received the third year installment for the Morehead Summer Outdoor Theatre Festival. We have hosted Dining with the Dead, Androcles and the Lion and the most recent, Cinderella. We also received two bronze awards during the Kentucky Travel Industry Association Traverse Awards. Our pedestrian grant funded the paint for bike sharrows on downtown streets, Battson-Oates and Bridge Street 4-way stop painting, and new crosswalk paint down the Main Street corridor.



#### Rowan County Arts Center overview

We hosted another successful Spend the Weekend in Morehead campaign. We kicked off this year's festivities with a Friday night square dance during the First Friday Outdoor Market event. Morehead Trail Fest started on Saturday at 8 a.m. with hikes, mountain biking, campfire cooking and more. The day continued with the Day in the Country Folk Art Show and Sale along with the Day in the Country Craft Fair. The First Friday Outdoor Market series has become a huge hit. Our crowds continue to grow, and we are starting to attract vendors and patrons from around the region. This year we added social media commercials, video footage, radio spots, upgraded posters and more to advertise the hometown event.

**Table 1**  
**The Commission's Net Position**

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 \$1,162,581 as of June 30, 2016. The Commission's net position increased by \$115,610 for the year ended June 30, 2016. The largest portion of net position (111.0%) reflects the Commission's investment in capital assets (e.g. land, buildings, machinery, and

	2016	2015	Dollar Change	Percent Change
Current and Other Assets	\$ 291,311	\$ 230,982	\$ 60,329	0.26
Capital Assets	7,923,560	8,069,903	\$ 146,343	0.02
Deferred outflows of resources	53,899	39,433	14,466	100.00
Total Assets	<u>\$ 8,268,770</u>	<u>\$ 8,340,318</u>	<u>\$ 221,138</u>	<u>0.03</u>
Current Liabilities	\$ 320,640	\$ 320,907	\$ (267)	(0.00)
Long-Term Debt Outstanding	6,785,549	6,939,440	\$ (153,891)	(0.02)
Deferred inflows of resources	-	33,000	(33,000)	100.00
Total Liabilities	<u>\$ 7,106,189</u>	<u>\$ 7,293,347</u>	<u>\$ (187,158)</u>	<u>(0.03)</u>
Net Position:				
Net investment in capital assets	\$ 1,290,140	\$ 1,175,389	\$ 114,751	0.10
Restricted	-	9,460	(9,460)	(1.00)
Unrestricted	<u>(127,559)</u>	<u>(137,878)</u>	<u>10,319</u>	<u>(0.07)</u>
Total Net Position	<u>\$ 1,162,581</u>	<u>\$ 1,046,971</u>	<u>\$ 115,610</u>	<u>0.11</u>

0.00%

0.90%

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. The remaining balance of \$-127,559 is unrestricted.



**Table 2**  
**Condensed Statement of Activities**

	2016	2015	Dollar Change	Percent Change
<b>Program Revenues</b>				
Charges for Services	123,329	93,755	29,574	0.32
Operating Grants and Contributions	31,507	44,307	(12,800)	(0.29)
Total Revenue	154,836	138,062	16,774	0.12
<b>Program Expenses</b>				
Grant and Administrative	1,075,524	1,050,869	24,655	0.02
Special Events and Recreation	220,573	130,527	90,046	0.69
Debt Services	328,524	341,593	(13,069)	(0.04)
Total Expenses	1,624,621	1,522,989	101,632	0.07
Net (Expense) Revenue	(1,469,785)	(1,384,927)	(84,858)	0.05
<b>General Revenues</b>				
Hotel Tax	164,168	151,847	12,321	0.08
Restaurant Tax	1,447,779	1,303,347	144,432	0.11
Rental service	5,126	4,097	1,029	0.25
RCAC Mgmt Fee	13,251	7,529	5,722	0.76
Other	4,535	4,585	(50)	(0.01)
Total General Revenue	1,634,859	1,471,405	163,454	0.11
Extraordinary Item-loss on disposal of capital asset	-	(16,160)		
Change in Net Assets	\$ 165,074	\$ 70,318	\$ 235,392	(3.35)

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, 2016, total \$7,923,560 (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	7,278,363
Vehicles	34,398
Equipment	362,152
Land Improvements	<u>89,257</u>
Total Capital Assets	10,030,841
Accumulated Depreciation	2,107,281
Capital Assets, net of Depreciation	<u><u>\$ 7,923,560</u></u>

**Debt-** As of June 30, 2016, The Commission had a total debt outstanding of \$6,633,420. 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	\$ 6,633,420
Total Debt Outstanding	<u>\$ 6,633,420</u>

The Commission's total debt decreased by \$153,891 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 from normal wear and tear. The monthly transfer into the account is \$5,000.

The Commission considered many factors when setting the FYE June 30, 2017 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, 2016**

	Governmental Activities
<b><u>ASSETS &amp; DEFERRED OUTFLOWS</u></b>	
<i>Current Assets</i>	
Cash and cash equivalents	\$ 144,371
Accounts receivable	<u>146,940</u>
Total Current Assets	<u>291,311</u>
<i>Noncurrent Assets</i>	
Buildings, land and equipment (Note 3)	10,030,841
Accumulated depreciation	<u>(2,107,281)</u>
Total Noncurrent Assets	<u>7,923,560</u>
Deferred outflows of resources	<u>53,899</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 8,268,770</u>
<b><u>LIABILITIES &amp; DEFERRED INFLOWS</u></b>	
<i>Current Liabilities</i>	
Accounts payable	\$ 25,914
Accrued liabilities	7,972
Accrued interest	22,370
Accrued compensated absences	3,290
Notes and leases payable (Note 4)	<u>273,847</u>
Total Current Liabilities	<u>333,393</u>
<i>Noncurrent Liabilities</i>	
Accrued compensated absences	7,676
Notes and leases payable (Note 4)	6,359,573
Accrued pension and OPEB liabilities	<u>405,547</u>
Total Noncurrent Liabilities	<u>6,772,796</u>
Total Liabilities and Deferred Inflows of Resources	<u>7,106,189</u>
<b><u>NET POSITION</u></b>	
Net investment in capital assets	1,290,140
Unrestricted	<u>(127,559)</u>
Total Net Position	<u>\$ 1,162,581</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, 2016**

<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>	
<b><u>Primary Government</u></b>				
<b>Governmental Activities</b>				
General and administrative	\$ 1,075,524	\$ -	\$ 31,507	\$ (1,044,017)
Special events and recreation	220,573		-	(220,573)
Events and catering		123,329		123,329
Interest on long-term debt	<u>328,524</u>	<u>-</u>	<u>-</u>	<u>(328,524)</u>
Total Governmental Activities	<u>1,624,621</u>	<u>123,329</u>	<u>31,507</u>	<u>(1,469,785)</u>
<b>General Revenues</b>				
Hotel tax				164,168
Restaurant tax				1,447,779
Miscellaneous				4,310
Rental service				5,126
RCAC management fee				13,251
Interest				<u>225</u>
Total General Revenues				<u>1,634,859</u>
<b>Change in Net Position</b>				165,074
Net position -- beginning				1,046,973
Prior period adjustment				<u>(49,466)</u>
<b>Net position -- ending</b>				<u>\$ 1,162,581</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, 2016**

<b><u>ASSETS &amp; DEFERRED OUTFLOWS</u></b>	<u>General</u>
<i>Current Assets</i>	
Cash and cash equivalents	\$ 144,371
Accounts receivable	<u>146,940</u>
Total Assets	<u>291,311</u>
Deferred outflows of resources	<u>53,899</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 345,210</u></u>
 <b><u>LIABILITIES, DEFERRED INFLOWS &amp; FUND BALANCE</u></b>	
<i>Current Liabilities</i>	
Accounts payable	\$ 25,914
Accrued liabilities	7,972
Accrued interest	22,370
Accrued compensated absences	<u>3,290</u>
Total Liabilities	<u>59,546</u>
 <b><u>FUND BALANCE</u></b>	
Unrestricted	<u>285,664</u>
Total Fund Balance	<u>285,664</u>
Total Liabilities, Deferred Inflows and Fund Balance	<u><u>\$ 345,210</u></u>
Total Governmental Fund Balance	\$ 285,664
Amounts reported for <i>governmental activities</i> 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	10,030,841
Accumulated depreciation	(2,107,281)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(7,046,643)</u>
Net Position of Governmental Activities	<u><u>\$ 1,162,581</u></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, 2016**

**REVENUES**

Hotel tax	\$ 164,168
Restaurant tax	1,447,779
State matching funds	31,507
Events and catering	123,329
Rental service	5,126
RCAC management fee	13,251
Other	<u>4,535</u>
 Total Revenues	 <u>1,789,695</u>

**EXPENSES**

General and administrative	809,437
Special events and recreation	220,573
Debt service - principal	261,093
Debt service - interest	328,524
Capital outlay	<u>62,007</u>
 Total Expenses	 <u>1,681,634</u>

Excess (deficiency) of revenues over expenses	<u>108,061</u>
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<b>Net Change in Fund Balance</b>	108,061
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Fund balances - beginning	<u>177,603</u>
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<b>Fund balances - ending</b>	<b><u>\$ 285,664</u></b>
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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, 2016**

Reconciliation to government-wide change in net position:

Net change in fund balances	\$ 108,061
increase/(decrease):	
capital outlay expenditures capitalized	62,007
principal on long-term debt	261,093
GASB 68 adjustment	(58,081)
depreciation on governmental activities' capital assets	(208,350)
change in long-term portion of accrued compensated absences	<u>344</u>
Change in net position, Governmental Activities	<u>\$ 165,074</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, 2016

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, 2016 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 \$61,417, a depreciation reserve account in the amount of \$79,389 and a theatre account in the amount of \$3,465, totaling \$144,271. 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	\$ 144,271	\$ 160,047
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>\$ 144,271</u>	<u>\$ 160,047</u>

### 3. Capital Assets

The following is a summary of furniture, equipment and leasehold improvements as of June 30, 2016:

Description	Balance 07/01/15	Adjustments/ Additions	Deletions	Balance 06/30/16
Land, non-depreciable	\$ 2,266,671	\$ -	\$ -	\$ 2,266,671
Convention Center	7,253,181	25,182	-	7,278,363
Automobiles	34,398	-	-	34,398
Equipment	325,327	36,825	-	362,152
Land improvements	<u>89,257</u>	<u>-</u>	<u>-</u>	<u>89,257</u>
Total	<u>\$ 9,968,834</u>	<u>\$ 62,007</u>	<u>\$ -</u>	<u>\$ 10,030,841</u>
Accumulated depreciation	<u>\$ 1,898,931</u>	<u>\$ 208,350</u>	<u>\$ -</u>	<u>\$ 2,107,281</u>
Capital assets, net of accumulated depreciation	<u>\$ 8,069,903</u>			<u>\$ 7,923,560</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, 2016 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
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	174,288	112,575	21,844	308,707
2022-2026	1,014,672	448,201	87,621	1,550,494
2027-2031	1,302,189	215,900	44,263	1,562,352
2032-2033	379,555	10,347	2,922	392,824
Total	\$ 3,487,055	\$ 1,303,933	\$ 256,299	\$ 5,047,287

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, 2016 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
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	64,298	29,427	6,426	100,151
2022-2026	370,883	105,484	24,448	500,815
2027-2030	332,892	25,667	8,541	367,100
Total	\$ 997,120	\$ 302,385	\$ 69,501	\$ 1,369,006

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, 2016 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
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	51,623	37,154	7,645	96,422
2022-2026	288,832	152,410	32,096	473,338
2027-2031	348,124	87,888	20,364	456,376
2032-2035	249,420	14,235	5,684	269,339
Total	\$ 1,126,076	\$ 460,395	\$ 99,973	\$ 1,686,444

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, 2016 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
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	39,851	35,303	7,781	82,935
2022-2026	228,118	150,276	34,039	412,433
2027-2031	285,559	94,943	24,464	404,966
2032-2036	327,192	32,748	11,970	371,910
Total	\$ 1,023,169	\$ 469,974	\$ 112,160	\$ 1,605,303

Negative fees' payments due to prepaid bond interest.

#### Changes in Leases Payable

During the year ended June 30, 2016, the following changes occurred:

Description	07/01/2015	Proceeds	Principal Paid	06/30/2016	Current Portion
Kentucky League of Cities	\$ 6,894,513	\$ -	\$ 261,093	\$ 6,633,420	\$ 273,847
Total	\$ 6,894,513	\$ -	\$ 261,093	\$ 6,633,420	\$ 273,847

#### 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, 2016 was 17.06% 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 \$36,782 for the year ended June 30, 2016.

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

At June 30, 2016, the Commission reported a liability of \$405,547 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015. At June 30, 2015 the Commission's proportionate share was 0.008039%.

For the year ended June 30, 2016, the Commission recognized pension expense of \$48,017. At June 30, 2016, 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-	\$ -0-
Commission's contributions subsequent to the measure date	<u>53,899</u>	<u>-0-</u>
Total	\$ 53,899	\$ -0-

\$53,899 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, 2017	\$ -0-
June 30, 2018	-0-
June 30, 2019	-0-
June 30, 2020	-0-
June 30, 2021	-0-
Thereafter	<u>-0-</u>
Total	\$ -0-

*Actuarial assumptions* - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.0% average including inflation
Investment rate of return	7.50%, net of pension plan investment expense including inflation

*Actuarial Methods and Assumptions*

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the 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 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	1%	3.25%
	100%	

*Discount Rate* - The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected

through 2117. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Comprehensive Annual Financial Report.

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, 2016, is based on the June 30, 2015, actuarial valuation. 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 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 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
Commission's proportionate share of the net pension liability	\$ 441,000	\$ 405,547	\$ 264,000

*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 2016 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](http://www.KentuckyPlans.com).

Employee contributions to the plan:

<u>2015</u>	<u>2016</u>
\$3,195	\$ 8,985

#### 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 1/12<sup>th</sup> 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	\$ 3,290
Noncurrent portion	<u>7,676</u>
Total	<u>\$ 10,966</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, 2016.

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

A prior period adjustment was made in the amount of \$(49,466):

Debit | (Credit)

<u>Account</u>	<u>Amount</u>
Net pension liability	\$ (107,547)
Deferred inflows of resources	33,000
Deferred outflows of resources	14,466
Pension expense (retirement contr.)	<u>10,615</u>
Totals	<u>\$ (49,466)</u>

## 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, 2016**

	Original, Enacted & Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
<b><u>Morehead Tourism Commission (MTC)</u></b>			
Carryover	\$ 82,592	\$ -	\$ (82,592)
RCAC management fee	15,000	13,251	(1,749)
Transient room tax	150,288	164,168	13,880
Morehead restaurant tax - MTC	280,494	306,395	25,901
State matching funds	18,000	11,607	(6,393)
Interest income	-	177	177
Grant income	19,500	19,900	400
Miscellaneous income	3,850	4,310	460
Event income	-	-	-
Total MTC revenue	<u>569,724</u>	<u>519,808</u>	<u>(49,916)</u>
<b>EXPENSES</b>			
<b><u>Morehead Tourism Commission (MTC)</u></b>			
Accountant expense	7,000	6,000	1,000
Administrative expense	8,835	5,319	3,516
Administrative services	11,400	14,440	(3,040)
Audit	9,950	9,950	-
Benefits - MTC	31,662	34,391	(2,729)
Cell phone expense	2,400	2,450	(50)
Copier lease	7,200	6,205	995
Executive assistant	34,963	26,786	8,177
Executive director	55,843	54,432	1,411
Federal unemployment	378	-	378
FICA & Medicare	9,552	-	9,552
Grant funding	195,000	187,108	7,892
Legal	5,700	5,517	183
Marketing - MTC	83,245	106,848	(23,603)
Outdoor theatre grant	19,500	31,510	(12,010)
Postage/meter lease	10,000	3,371	6,629
RCAC building assistant	5,000	9,138	(4,138)
RCAC executive director	37,050	38,195	(1,145)
Retirement - MTC	21,300	20,573	727
Staff travel & dues - MTC	13,000	23,731	(10,731)
State unemployment	746	-	746
EDC marketing support	-	-	-
Event expense	-	-	-
Payroll tax expenses - MTC	-	9,886	(9,886)
Tax expense - MTC	-	9	(9)
Total MTC expenses	<u>569,724</u>	<u>595,859</u>	<u>26,135</u>
Profit/(loss)	<u>\$ -</u>	<u>\$ (76,051)</u>	<u>\$ (76,051)</u>
<b><u>MTC Summary</u></b>			
Revenues	\$ 569,724	\$ 519,808	\$ (49,916)
Expenses	<u>569,724</u>	<u>595,859</u>	<u>(26,135)</u>
Difference	<u>\$ -</u>	<u>\$ (76,051)</u>	<u>\$ (76,051)</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, 2016

	Original, Enacted & Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
<b><u>Morehead Conference Center (MCC)</u></b>			
Carryover	\$ 24,676	\$ -	\$ (24,676)
Morehead restaurant tax - MCC	976,167	1,141,384	165,217
Interest revenue	100	48	(52)
Events	95,000	77,848	17,152
Local catering income	19,000	29,981	10,981
Special event staffing	-	-	-
Catering	19,500	15,500	(4,000)
Rental service income	7,000	5,126	(1,874)
Total MCC revenue	<u>1,141,443</u>	<u>1,269,887</u>	<u>128,444</u>
<b>EXPENSES</b>			
<b><u>Morehead Conference Center (MCC)</u></b>			
Benefits - MCC	21,774	15,609	6,165
MCC building assistants (part-time)	40,000	44,083	(4,083)
Depreciative asset reserve / capital purchases	60,000	62,007	(2,007)
Equipment repair	76,000	28,264	47,736
Cleaning supplies	28,707	26,112	2,595
Federal unemployment	378	-	378
FICA & Medicare	7,578	-	7,578
Garbage	720	681	39
Local catering expense	27,500	33,465	(5,965)
Jeffersontown Pool	99,900	50,855	49,045
Marketing - MCC	65,000	66,190	(1,190)
MCC building operator	37,925	36,880	1,045
MCC building services technician	23,491	20,882	2,609
MCC director	40,640	39,775	865
Insurance	27,500	27,799	(299)
Morehead Pool	102,000	42,721	59,279
Newport Pool	295,000	135,806	159,194
Parking lease	7,600	7,200	400
Rental services expense	19,176	8,196	10,980
Retirement - MCC	16,899	16,829	70
Richmond Pool	35,000	31,712	3,288
Staff travel & dues - MCC	10,000	6,589	3,411
State unemployment	745	-	745
Utilities - electric	67,410	70,643	(3,233)
Utilities - electric sign	1,500	1,310	190
Utilities - gas	15,000	7,234	7,766
Utilities - phone & Internet	8,000	8,146	(146)
Utilities: water & sewer	2,000	1,485	515
Vehicle maintenance/gas	4,000	2,217	1,783
Depreciation expense	-	-	-
Payroll tax expenses - MCC	-	11,684	(11,684)
Interest expense	-	328,524	(328,524)
Total MCC expenses	<u>1,141,443</u>	<u>1,132,898</u>	<u>(8,545)</u>
Profit/(loss)	<u>\$ -</u>	<u>\$ 136,989</u>	<u>\$ 136,989</u>
<b><u>MCC Summary</u></b>			
Revenues	\$ 1,141,443	\$ 1,269,887	\$ 128,444
Expenses	<u>1,141,443</u>	<u>1,132,898</u>	<u>8,545</u>
Difference	<u>\$ -</u>	<u>\$ 136,989</u>	<u>\$ 136,989</u>

**Morehead Recreation, Tourism & Convention Commission**  
**Schedule of the Commission's Proportionate**  
**Share of Net Pension Liability**  
**June 30, 2016**

	<u>6/30/2015</u>	<u>6/30/2016</u>
Commission's proportion of the net pension liability	0.009200%	0.008039%
Commission's proportionate share of the net pension liability	\$ 298,000	\$ 405,547
Commission's covered employee payroll	\$ 220,070	\$ 215,601
Commission's proportionate of the net pension liability as a percentage of its covered employee payroll	135.41%	188.10%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%

**Morehead Recreation, Tourism & Convention Commission**  
**Schedule of Commission Contributions**  
**June 30, 2016**

	<u>6/30/2015</u>	<u>6/30/2016</u>
Contractually required contribution	\$ 28,059	\$ 26,778
Contributions in relation to the contractually required contribution	<u>28,059</u>	<u>26,778</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>
Commission's covered payroll	<u>\$ 220,070</u>	<u>\$ 215,601</u>
Contributions as a percentage of covered payroll	12.75%	12.42%

# John T. Lane and Associates, LLC

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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, 2016, 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 September 15, 2016.

## **Internal Control over Financial Reporting**

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

September 15, 2016



MOREHEAD RECREATION, TOURISM AND CONVENTION COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2016

FINDINGS – FINANCIAL STATEMENTS AUDIT

PRIOR FINDINGS

None

CURRENT FINDINGS

None