

MOREHEAD RECREATION, TOURISM
AND CONVENTION COMMISSION
Morehead, Kentucky

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS
for the year ended June 30, 2017

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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, 2017, 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.

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.

Opinion

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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budget and actual and the management's discussion and analysis 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 21, 2017, 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 21, 2017

This report contains 33 pages.



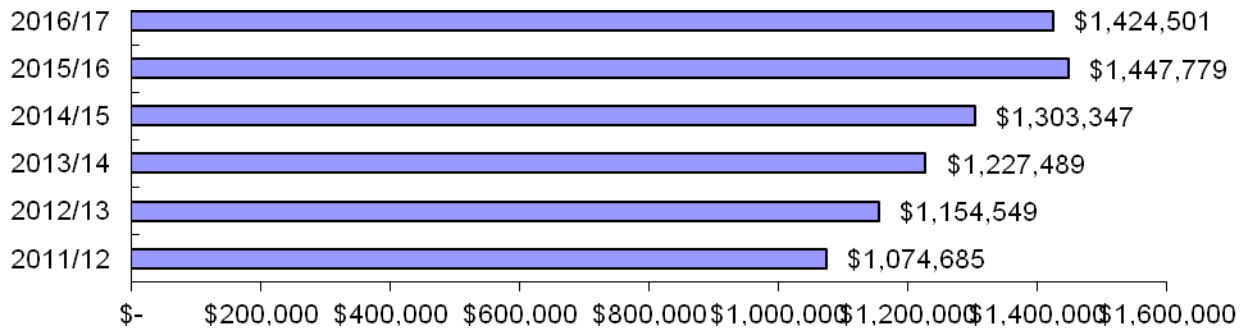
**Management Discussion and Analysis (MD&A)
Fiscal Year Ending June 30, 2017**

The Management of the Morehead Recreation, Tourism, and Convention Commission (the Commission) offers readers of the Commission’s financial statements this narrative overview and analysis of their financial activities for the fiscal year ended (FYE) June 30, 2017. We encourage readers to read the information presented here in conjunction with the auditor’s report on page 1-2 and the Commission’s financial statements, which begin to appear on page 10.

Financial Highlights

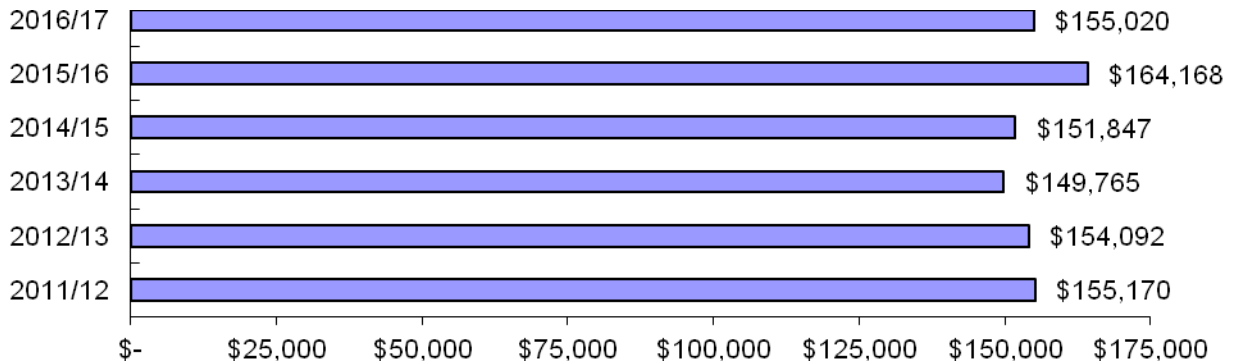
- Restaurant tax collections have decreased \$23,278 (or 1.61%) to \$1,424,501 from \$1,447,779 in the prior year. A historical graph follows:

FY2016/2017 RESTAURANT TAX



- Hotel tax collections have decreased \$9,148 (or 5.6%) to \$155,020 from \$164,168 in the prior year. A historical graph follows:

FY2016/2017 HOTEL/MOTEL TAX



- Revenues from Conference Center operations decreased \$79,753 (or 67.0%) to \$43,576 from 123,329 the prior year.
- General and Administrative Expenses increased \$233,643 (or 28.8%) to \$1,043,080 from \$809,437 in the prior year.
- The Commission's noncurrent liabilities decreased \$251,449 (or 3.7%) to \$6,534,100 from \$6,785,549 in the prior year.
- The Commission's net position increased \$60,047 (or 5.2%) to \$1,222,628 from \$1,162,581 in the prior year's end.

Overview of the Financial Statements

The Commission's basic financial 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 user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the Commission's accountability.

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

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

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

Overview of the Commission

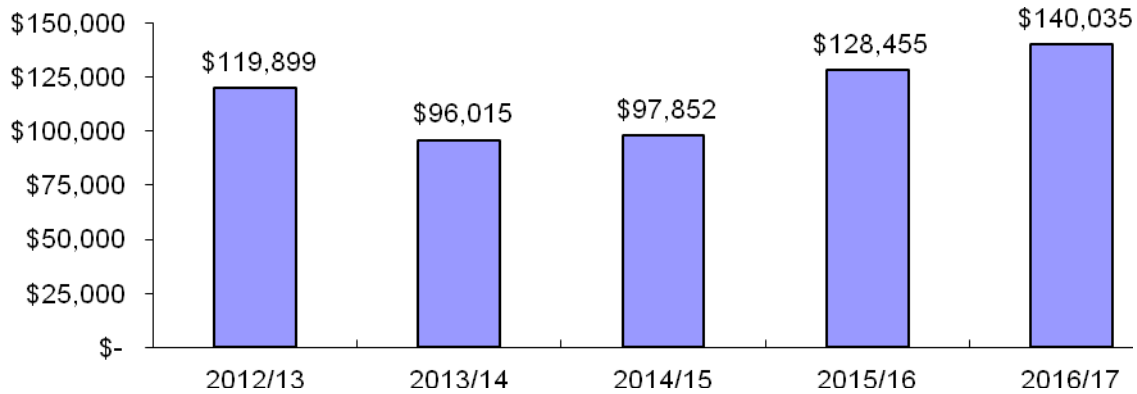
Morehead Visitor Center overview

The Morehead Visitor Center opened in March of 2017. Since then, we have opened a small gift shop for locals and visitors. The center tracks visitors to the area, phone calls requesting information about the area and assists with helping visitors get around the area. We have welcomed visitors from Europe, Hawaii, California and several other states. We also track the social media analytics for Morehead Tourism, keep the website up to date with events in Morehead and Rowan County and mail/ship travel guides.

Morehead Conference Center overview

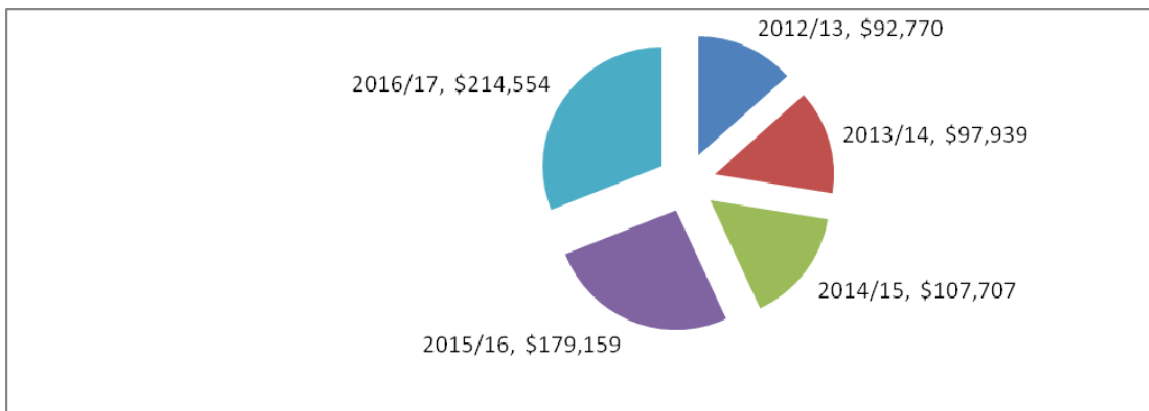
Morehead Conference Center continues to improve in many areas. Within the last year we have added an in-ceiling projector and screen to Collins Hall West which completes our audio/visual renovation project. These projectors will improve efficiency and add space to the room by the elimination of the a/v cart. We have also improved our HVAC system by adding an efficient boiler. Over the past 11 years, we have welcomed over 4,100 events, averaging 372 events per year. Our Kentucky Proud Expo continues to grow and invites everyone to shop local while supporting local businesses throughout the region.

MCC EVENTS, CATERING AND RENTAL INCOME



Morehead Tourism overview

Morehead Tourism continues to lead the charge in expanding opportunities for visitors to enjoy Morehead and Rowan County. We provided marketing and advertising grants of over \$200,000 including Morehead Freedom Fest, Morehead Arts and Eats Festival, Bike Morehead, Vision Morehead, fishing tournaments and various other events. We now manage the Moonlight Stage as an outdoor venue and the home of the Morehead Outdoor Theatre Festival. In 2018, the festival will kick off from its’ new home on First Street. We were thrilled to open the first Morehead Visitor Center in the former railroad depot. The partnership with the local chamber is a great fit and has resulted in increased visitor traffic. We received two silver, 3 bronze and the judge’s choice award for marketing and advertising during the annual Kentucky Travel Industry Association’s Traverse Awards. We were the host of the first Kentucky Trail Town Summit with over 125 participants. We also participated in ten travel shows



Rowan County Arts Center overview

The First Friday Outdoor Market continues to grow. We have expanded the market to the front and side yard of the Rowan County Arts Center. Along with all the added advertising we have added live music and the public is responding! The market is becoming not only a place to shop local but a hang out to enjoy music and to visit with friends. Gallery Sales were off the chart this year thanks to an art auction partnership with the Cave Run Symphony Orchestra and expanding our gift shop to include t-shirts, jewelry and art supplies.

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 \$1,222,628 as of June 30, 2017. The Commission's net position increased by \$60,047 for the fiscal year ended June 30, 2017. The largest portion of net position (95.0%) reflects the Commission's investment in capital assets (e.g. land, buildings, machinery, and

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	\$ 281,579	\$ 291,311	\$ (9,732)	(0.03)
Capital Assets, net	7,743,707	7,923,560	\$ 179,853	0.02
Deferred outflow of resources	<u>102,788</u>	<u>53,899</u>	<u>48,889</u>	<u>0.91</u>
Total Assets	<u>\$ 8,128,074</u>	<u>\$ 8,268,770</u>	<u>\$ 219,010</u>	<u>0.03</u>
Current Liabilities	\$ 360,776	\$ 333,393	\$ 27,383	8.2
Noncurrent Liabilities	6,534,100	6,772,796	\$ (238,696)	(3.5)
Deferred inflow of resources	<u>10,570</u>	<u>-</u>	<u>10,570</u>	<u>1.00</u>
Total Liabilities	<u>\$ 6,905,446</u>	<u>\$ 7,106,189</u>	<u>\$ (200,743)</u>	<u>(0.03)</u>
Net Position:				
Net investment In Capital Assets	\$ 1,384,134	\$ 1,290,140	\$ 93,994	0.07
Restricted	-	-	-	0.00
Unrestricted	<u>(161,506)</u>	<u>(127,559)</u>	<u>(33,947)</u>	<u>.27</u>
Total Net Position	<u>\$ 1,222,628</u>	<u>\$ 1,162,581</u>	<u>\$ 60,047</u>	<u>0.05</u>

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 \$-161,506 is unrestricted.

Table 2
Condensed Statement of Activities

	2017	2016	Dollar Change	Percent Change
Program Revenues				
Charges for Services	43,576	123,329	(79,753)	(0.65)
Operating Grants and Contributions	32,106	31,507	599	0.02
Total Revenue	<u>75,682</u>	<u>154,836</u>	<u>(79,154)</u>	<u>(0.51)</u>
Program Expenses				
Grant and Administrative	1,276,428	1,075,524	200,904	0.19
Special Events and Recreation	227,604	220,573	7,031	0.03
Debt Services	318,255	328,524	(10,269)	(0.03)
Total Expenses	<u>1,822,287</u>	<u>1,624,621</u>	<u>197,666</u>	<u>0.12</u>
Net (Expense) Revenue	(1,746,605)	(1,469,785)	(276,820)	0.63
General Revenues				
Hotel Tax	155,020	164,168	(9,148)	(0.06)
Restaurant Tax	1,424,501	1,447,779	(23,278)	(0.02)
Rental service	113,050	5,126	107,924	21.05
RCAC Mgmt Fee	-	13,251	(13,251)	(1.00)
Other	43,802	4,535	39,267	8.66
Total General Revenue	<u>1,736,373</u>	<u>1,634,859</u>	<u>101,514</u>	<u>0.06</u>
Extraordinary Item-loss on disposal of capital asset	<u>(995)</u>	<u>-</u>	<u>(995)</u>	
Change in Net Position	<u>\$ (11,227)</u>	<u>\$ 165,074</u>	<u>\$ 153,847</u>	<u>(0.93)</u>

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

Capital Asset and Debt Administration

Capital Assets- The Commissions investments in capital assets as of June 30, 2017, total \$7,743,707 (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	7,274,851
Vehicles	34,398
Equipment	361,195
Land Improvements	<u>89,257</u>
Total Capital Assets	10,026,372
Accumulated Depreciation	2,282,665
Capital Assets, net of Depreciation	<u>\$ 7,743,707</u>

Debt- As of June 30, 2017, The Commission had a total debt outstanding of \$6,359,573. 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	\$ 6,359,573
Total Debt Outstanding	<u>\$ 6,359,573</u>

The Commission’s total debt decreased by \$273,847 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 Year's Budget

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

The Commission considered many factors when setting the FYE June 30, 2018 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, 2017

<u>ASSETS & DEFERRED OUTFLOWS</u>	<u>Governmental Activities</u>
<i>Current Assets</i>	
Cash and cash equivalents	\$ 154,511
Accounts receivable	127,068
	<hr/>
Total Current Assets	281,579
 <i>Noncurrent Assets</i>	
Buildings, land and equipment (Note 3)	10,026,372
Accumulated depreciation	(2,282,665)
	<hr/>
Total Noncurrent Assets	7,743,707
	<hr/>
Deferred outflows of resources	102,788
	<hr/>
Total Assets and Deferred Outflows of Resources	\$ 8,128,074
	<hr/>
<u>LIABILITIES & DEFERRED INFLOWS</u>	
<i>Current Liabilities</i>	
Accounts payable	\$ 33,728
Accrued liabilities	8,230
Accrued interest	25,023
Accrued compensated absences	6,998
Notes and leases payable (Note 4)	286,797
	<hr/>
Total Current Liabilities	360,776
	<hr/>
<i>Noncurrent Liabilities</i>	
Accrued compensated absences	16,331
Notes and leases payable (Note 4)	6,072,776
Accrued pension and OPEB liabilities	444,993
	<hr/>
Total Noncurrent Liabilities	6,534,100
	<hr/>
Deferred inflows of resources	10,570
	<hr/>
Total Liabilities and Deferred Inflows of Resources	6,905,446
	<hr/>
<u>NET POSITION</u>	
Net investment in capital assets	1,384,134
Unrestricted	(161,506)
	<hr/>
Total Net Position	\$ 1,222,628
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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, 2017

<u>Functions/Programs</u>	<u>Program Revenues</u>			Net (Expense)
<u>Primary Government</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	Revenue and Changes in Net Position
Governmental Activities				
General and administrative	\$ 1,276,428	\$ -	\$ 32,106	\$ (1,244,322)
Events and catering	227,604	43,576		(184,028)
Interest on long-term debt	<u>318,255</u>	<u>-</u>	<u>-</u>	<u>(318,255)</u>
Total Governmental Activities	<u>1,822,287</u>	<u>43,576</u>	<u>32,106</u>	<u>(1,746,605)</u>
 General Revenues				
Hotel tax				155,020
Restaurant tax				1,424,501
Miscellaneous				15,248
Facility room rental				93,514
Facility service income				2,945
Studio rentals				12,000
Auditorium rentals				6,672
Art classes				4,779
Other rentals				864
Gallery sales				1,432
City of Morehead income				8,000
Ky. Arts Council grant				1,045
Fundraisers and donations				9,777
Interest				<u>576</u>
Total General Revenues				<u>1,736,373</u>
Extraordinary item--loss on disposal of capital asset				<u>(995)</u>
Change in Net Position				(11,227)
Net position -- beginning				1,162,583
Prior period adjustment				<u>71,272</u>
Net position -- ending				<u>\$ 1,222,628</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, 2017

<u>ASSETS</u>	General
<i>Current Assets</i>	
Cash and cash equivalents	\$ 154,511
Accounts receivable	127,068
 Total Assets	 281,579
 <u>LIABILITIES & FUND BALANCE</u>	
<i>Current Liabilities</i>	
Accounts payable	\$ 33,728
Accrued liabilities	8,230
Accrued interest	25,023
Accrued compensated absences	6,998
 Total Liabilities	 73,979
 <u>FUND BALANCE</u>	
Unrestricted	207,600
Total Fund Balance	207,600
 Total Liabilities and Fund Balance	 \$ 281,579
 Total Governmental Fund Balance	 \$ 207,600

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,026,372
Accumulated depreciation	(2,282,665)
Deferred outflows are not due and payable in the current period and therefore are not reported in the funds	102,788
Deferred inflows are not due and payable in the current period and therefore are not reported in the funds	(10,570)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(6,820,897)
Net Position of Governmental Activities	\$ 1,222,628

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, 2017

REVENUES

Hotel tax	\$ 155,020
Restaurant tax	1,424,501
State matching funds	32,106
Events and catering	43,576
Facility room rental	93,514
Facility service income	2,945
Studio rentals	12,000
Auditorium rentals	6,672
Art classes	4,779
Other rentals	864
Gallery sales	1,432
City of Morehead income	8,000
Ky. Arts Council grant	1,045
Fundraisers and donations	9,777
Other	<u>15,824</u>
 Total Revenues	 <u>1,812,055</u>

EXPENSES

General and administrative	1,043,080
Events & catering	227,604
Debt service - principal	273,847
Debt service - interest	318,255
Capital outlay	<u>30,269</u>
 Total Expenses	 <u>1,893,055</u>

Excess (deficiency) of revenues over expenses	<u>(81,000)</u>
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Net Change in Fund Balance	(81,000)
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Fund balances - as restated	231,767
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Prior period adjustment	<u>56,833</u>
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Fund balances - ending	<u>\$ 207,600</u>
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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, 2017

Reconciliation to government-wide change in net position:

Net change in fund balances	\$	(81,000)
increase/(decrease):		
capital outlay expenditures capitalized		30,269
principal on long-term debt		273,847
GASB 68 pension adjustment		(15,566)
loss on disposal of capital asset		(995)
depreciation on governmental activities' capital assets		(209,127)
change in long-term portion of accrued compensated absences		<u>(8,655)</u>
Change in net position, Governmental Activities	\$	<u>(11,227)</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, 2017

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, 2017 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 periodically transfers money 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 \$74,331 and a depreciation reserve account in the amount of \$80,080, totaling \$154,411. The remaining \$100 is held as petty cash. Deposits with financial institutions are secured as follows:

	Reconciled <u>Bank Balance</u>	Deposits <u>in Bank</u>
Insured by FDIC	\$ 154,411	\$ 166,216
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>\$ 154,411</u>	<u>\$ 166,216</u>

3. Capital Assets

The following is a summary of furniture, equipment and leasehold improvements as of June 30, 2017:

<u>Description</u>	Balance 07/01/16	Adjustments/ Additions Deletions		Balance 06/30/17
Land, non-depreciable	\$ 2,266,671	\$ -	\$ -	\$ 2,266,671
Convention Center	7,278,363	-	3,511	7,274,852
Automobiles	34,398	-	-	34,398
Equipment	362,152	30,269	31,227	361,194
Land improvements	89,257	-	-	89,257
Total	<u>\$ 10,030,841</u>	<u>\$ 30,269</u>	<u>\$ 34,738</u>	<u>\$ 10,026,372</u>
Accumulated depreciation	<u>\$ 2,107,281</u>	<u>\$ 209,127</u>	<u>\$ 33,743</u>	<u>\$ 2,282,665</u>
Capital assets, net of accumulated depreciation	<u>\$ 7,923,560</u>			<u>\$ 7,743,707</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, 2017 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
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	183,204	105,579	20,500	309,283
2023-2027	1,066,585	448,201	87,621	1,602,407
2028-2032	1,368,811	162,086	34,224	1,565,121
2033	77,816	525	297	78,638
Total	\$ 3,344,301	\$ 1,207,870	\$ 237,535	\$ 4,789,706

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, 2017 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
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	67,386	26,861	5,947	100,194
2023-2027	388,695	90,364	21,677	500,736
2028-2030	247,695	13,927	5,367	266,989
Total	\$ 943,822	\$ 263,638	\$ 61,366	\$ 1,268,826

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, 2017 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
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	53,535	35,086	7,256	95,877
2023-2027	299,824	140,451	29,920	470,195
2028-2032	361,354	73,490	17,747	452,591
2033-2035	171,663	7,657	3,221	182,541
Total	\$ 1,081,598	\$ 417,619	\$ 90,913	\$ 1,590,130

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, 2017 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
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	41,620	33,702	7,475	82,797
2023-2027	238,601	140,728	32,289	411,618
2028-2032	298,653	86,012	22,282	406,947
2033-2036	261,994	20,388	8,428	290,810
Total	\$ 989,852	\$ 431,582	\$ 103,290	\$ 1,524,724

Changes in Leases Payable

During the year ended June 30, 2017, the following changes occurred:

Description	07/01/2016	Proceeds	Principal Paid	06/30/2017	Current Portion
Kentucky League of Cities	\$ 6,633,420	\$ -	\$ 273,847	\$ 6,359,573	\$ 286,797
Total	\$ 6,633,420	\$ -	\$ 273,847	\$ 6,359,573	\$ 286,797

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, 2017 was 18.68% (13.95% pension; 4.73% insurance) 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 \$42,616 for the year ended June 30, 2017. The contribution was allocated \$31,825 to the pension fund and \$10,791 to the insurance fund.

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

At June 30, 2017, 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, 2016, 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, 2016. At June 30, 2016, the Commission's proportionate share was 0.009040 %.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. For the year ended June 30, 2017, the Commission recognized pension expense of \$58,634. At June 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows <u>of Resources</u>	Deferred Inflows <u>of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 41,834	\$ -0-
Differences between expected and actual Experience	1,943	-0-
Changes in assumptions	23,573	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,609	10,570
Commission's contributions subsequent to the measure date	<u>31,829</u>	<u>-0-</u>
Total	\$ 102,788	\$ 10,570

\$31,829 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, 2017. The remaining amount of \$60,389 reported as the net effect of 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, 2018	\$ 22,431
June 30, 2019	15,007
June 30, 2020	14,617
June 30, 2021	8,333
June 30, 2022	-0-
Thereafter	<u>-0-</u>
Total	\$ 60,389

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2016 using standard roll-forward techniques, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00% average including inflation
Investment rate of return	7.50%, net of pension plan investment expense including inflation

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 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 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 actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The discount rate used to measure the total pension liability was 7.50%.

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 27-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. 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 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 discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through year 2117. The target asset allocation and best estimates for arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	<u>2%</u>	-0.25%
	100%	

Discount rate - The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Commission will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Commission's proportionate share of the net pension liability to changes in the discount rate - The following presents the net pension liability of the System, calculated using the discount rate of percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate for non-hazardous and (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate for hazardous:

	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	\$ 555,000	\$ 444,993	\$ 351,000

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 2017 is \$18,000 for those under age 50, \$18,000 age 50 and up, and \$36,000 for special catch-up contributions. You can learn more about the plan by visiting the Kentucky Deferred Comp website at www.KentuckyPlans.com.

Employee contributions to the plan:

<u>2015</u>	<u>2016</u>	<u>2017</u>
\$3,195	\$ 8,985	\$5,450

8. Risk Management

The Morehead Recreation, Tourism and Convention Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the Commission also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance.

9. Accrued Compensated Absences

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

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

The following schedule applies for maximum accrual:

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

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

Current portion	\$ 6,998
Noncurrent portion	<u>16,331</u>
Total	<u>\$ 23,329</u>

10. Prior Period Adjustments

Statement of Activities

A prior period adjustment was made in the amount of \$71,272:

Debit (Credit)	<u>Amount</u>
<u>Account/Description</u>	
Net pension liability	\$ (39,446)
Deferred inflows of resources	(10,570)
Deferred outflows of resources	48,889
Pension expense (retirement contr.)	15,566
Transfer RCAC cash in bank to MTC	<u>56,833</u>
Total	<u>\$ 71,272</u>

Statement of Revenues, Expenditures and Changes in Fund Balance

A prior period adjustment was made in the amount of \$56,833:

Debit (Credit)	<u>Amount</u>
<u>Account/Description</u>	
Transfer RCAC cash in bank to MTC	<u>\$ 56,833</u>

Fund balance equity was restated to reflect the removal of deferred outflows of resources from the Balance Sheet. Original equity at June 30, 2016 was \$285,664 and was restated to \$231,767 to reflect the removal of deferred outflows of resources (\$53,897).

11. Long-Term Liabilities

<u>Description</u>	<u>Balance,</u> <u>07/01/2016</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Balance,</u> <u>06/30/2017</u>	<u>Current</u> <u>Portion</u>
Accrued compensated absences	\$ 10,966	\$ 12,363	\$ -	\$ 23,329	\$ 6,998
Notes & leases payable	6,633,420	-	273,847	6,359,573	286,797
Accrued pension & OPEB	405,547	39,446	-	444,993	-
Total	<u>\$ 7,049,933</u>	<u>\$ 51,809</u>	<u>\$ 273,847</u>	<u>\$ 6,827,895</u>	<u>\$ 293,795</u>

REQUIRED SUPPLEMENTAL INFORMATION

Morehead Recreation, Tourism & Convention Commission
Schedule of Proportionate Share of Net Pension Liability
June 30, 2017

	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>
Proportion of net pension liability	0.009200%	0.008039%	0.009040%
Proportionate share of net pension liability	\$ 298,000	\$ 405,547	\$ 444,993
Covered employee payroll	\$ 221,178	\$ 220,070	\$ 215,601
Proportionate of net pension liability as a percentage of covered employee payroll	134.73%	184.28%	206.40%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%

Morehead Recreation, Tourism & Convention Commission
Schedule of Pension Contributions
June 30, 2017

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Contractually required contribution	\$ 28,059	\$ 26,778	\$ 31,829
Contributions in relation to the contractually required contribution	<u>28,059</u>	<u>26,778</u>	<u>31,829</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 220,070</u>	<u>\$ 215,601</u>	<u>\$ 228,165</u>
Contributions as a percentage of covered payroll	12.75%	12.42%	13.95%

MOREHEAD RECREATION, TOURISM AND CONVENTION COMMISSION
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
For the year ended June 30, 2017

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ending 2018, determined as of July 01, 2016. The amortization period of the unfunded liability has been reset as of July 01, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

- | | |
|---------------------------------|---|
| • Actuarial cost method | Entry age |
| • Amortization method | Level percentage of payroll, closed |
| • Remaining amortization period | 27 years |
| • Asset valuation method | 5-year smoothed market |
| • Inflation | 3.25 percent |
| • Salary increase | 4.00, average, including inflation |
| • Investment rate of return | 7.50 percent, net of pension plan investment expense, including inflation |

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, 2017

	Original, Enacted & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Morehead Tourism Commission (MTC)			
Carryover	\$ 91,761	\$ -	\$ (91,761)
Outdoor theatre grant	19,500	19,500	-
Hotel/motel tax	182,250	155,020	(27,230)
RCAC management fee	16,500	-	(16,500)
Restaurant tax - MTC	326,379	367,558	41,179
State matching funds	7,500	12,606	5,106
Reimbursements	2,500	15,248	12,748
Total MTC revenue	<u>646,390</u>	<u>569,932</u>	<u>(76,458)</u>
EXPENSES			
Morehead Tourism Commission (MTC)			
Accountant expense - MTC	7,000	6,250	750
Administrative expenses - City of Morehead	13,055	14,163	(1,108)
Administrative expenses - office supplies	5,000	9,478	(4,478)
Audit	7,500	6,450	1,050
Benefits - MTC	25,222	22,350	2,872
Cell phone expense	3,000	2,700	300
Copier lease	7,200	6,313	887
Executive assistant	36,012	22,110	13,902
Executive director	57,519	58,840	(1,321)
FICA & Medicare - MTC	10,074	12,785	(2,711)
Grant funding	237,055	214,554	22,501
Legal	2,000	4,359	(2,359)
Marketing - MTC	140,749	210,369	(69,620)
Miscellaneous expense	-	11	(11)
Moonlight stage	-	40	(40)
Morehead Visitor Center	-	24,540	(24,540)
Outdoor theatre grant expense	19,500	1,377	18,123
Payroll tax expenses - MTC	126	-	126
Postage/meter lease	7,000	5,547	1,453
RCAC building assistant	5,000	17,040	(12,040)
RCAC executive director	38,162	45,759	(7,597)
Retirement - MTC	24,600	26,011	(1,411)
State unemployment	616	-	616
Visitor center program specialist	-	15,233	(15,233)
Total MTC expenses	<u>646,390</u>	<u>726,279</u>	<u>79,889</u>
Profit/(loss)	<u>\$ -</u>	<u>\$ (156,347)</u>	<u>\$ (156,347)</u>
MTC Summary			
Revenues	\$ 646,390	\$ 569,932	\$ (76,458)
Expenses	<u>646,390</u>	<u>726,279</u>	<u>(79,889)</u>
Difference	<u>\$ -</u>	<u>\$ (156,347)</u>	<u>\$ (156,347)</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, 2017

	Original, Enacted & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
<u>Morehead Conference Center (MCC)</u>			
Carryover	\$ 29,846	\$ -	\$ (29,846)
Catering	10,000	43,576	33,576
Facility room rental	100,000	93,514	(6,486)
Facility services income	5,000	2,945	2,055
Interest income	150	576	426
Restaurant tax - MCC	979,137	1,056,943	77,806
Total MCC revenue	<u>1,124,133</u>	<u>1,197,554</u>	<u>73,421</u>
EXPENSES			
<u>Morehead Conference Center (MCC)</u>			
Benefits - MCC	31,532	13,971	17,561
MCC building assistants (part-time)	40,000	48,769	(8,769)
Building cleaning	38,840	21,163	17,677
Depreciative asset reserve / capital purchases	60,000	30,269	29,731
Cleaning supplies	3,000	-	3,000
Event supplies	-	65,918	(65,918)
Federal unemployment	126	-	126
FICA & Medicare - MCC	8,042	11,512	(3,470)
Garbage pick up - MCC	720	642	78
Jeffersontown Pool	99,900	53,298	46,602
Maintenance - MCC	65,000	51,063	13,937
Marketing - MCC	44,604	58,833	(14,229)
MCC building operator	39,063	42,675	(3,612)
MCC building services technician	24,196	-	24,196
MCC director	41,859	46,322	(4,463)
MCC insurance	26,000	26,549	(549)
Morehead Pool	102,000	44,478	57,522
Newport Pool	295,000	142,754	152,246
Parking lease	7,200	8,400	(1,200)
Retirement - MCC	19,636	17,058	2,578
Richmond Pool	85,000	33,317	51,683
State unemployment	615	-	615
Utilities - electric	67,500	66,874	626
Utilities - electric sign	1,500	1,298	202
Utilities - gas	10,000	7,368	2,632
Utilities - phone & Internet	8,000	7,961	39
Utilities: water & sewer	2,000	2,992	(992)
Vehicle maintenance/gas	2,800	1,355	1,445
Interest expense	-	318,255	(318,255)
Total MCC expenses	<u>1,124,133</u>	<u>1,123,094</u>	<u>(1,039)</u>
Profit/(loss)	<u>\$ -</u>	<u>\$ 74,460</u>	<u>\$ 74,460</u>
<u>MCC Summary</u>			
Revenues	\$ 1,124,133	\$ 1,197,554	\$ 73,421
Expenses	<u>1,124,133</u>	<u>1,123,094</u>	<u>1,039</u>
Difference	<u>\$ -</u>	<u>\$ 74,460</u>	<u>\$ 74,460</u>

MOREHEAD RECREATION, TOURISM & CONVENTION COMMISSION
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Fund
Budget and Actual
Rowan County Arts Center (RCAC)
for the year ended June 30, 2017

	Original, Enacted & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
<u>Rowan County Arts Center (RCAC)</u>			
Carryover	\$ 51,000	\$ -	\$ (51,000)
Art classes	3,000	4,779	1,779
Auditorium rentals	6,500	6,672	172
City of Morehead grant	8,000	8,000	-
Fundraisers and donations	12,500	9,777	2,723
Gallery sales	750	1,432	(682)
Ky. Arts Council grant	1,000	1,045	(45)
Other rentals	950	864	86
Studio rentals	17,400	12,000	5,400
Total MCC revenue	<u>101,100</u>	<u>44,569</u>	<u>(56,531)</u>
EXPENSES			
<u>Rowan County Arts Center (RCAC)</u>			
Accountant expense - RCAC	1,200	1,050	150
Advertising	15,000	13,050	1,950
Art supplies	2,100	1,226	874
Building assistants (part time)	6,000	6,000	-
Depreciative asset reserve / capital purchases	40,000	-	40,000
Exhibit expense	500	315	185
Fundraising expense	3,000	723	2,277
Gallery sales expense	2,500	1,002	1,498
Garbage pick up - RCAC	600	80	520
Insurance - contents	1,500	-	1,500
Instructor expense	1,500	1,585	(85)
Janitor contract	5,000	3,339	1,661
Maintenance - RCAC	5,800	5,894	(94)
Office supplies/postage fees	2,500	819	1,681
Staff travel, dues and expense	1,500	386	1,114
Utilities - outdoor utility box	400	213	187
Utilities/rent to County	12,000	8,000	4,000
Total MCC expenses	<u>101,100</u>	<u>43,682</u>	<u>(57,418)</u>
Profit/(loss)	<u>\$ -</u>	<u>\$ 887</u>	<u>\$ 887</u>
<u>RCAC Summary</u>			
Revenues	\$ 101,100	\$ 44,569	\$ (56,531)
Expenses	<u>101,100</u>	<u>43,682</u>	<u>57,418</u>
Difference	<u>\$ -</u>	<u>\$ 887</u>	<u>\$ 887</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the Morehead Recreation, Tourism and Convention Commission, as of and for the year ended June 30, 2017, 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 21, 2017.

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 opinion 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 21, 2017

MOREHEAD RECREATION, TOURISM AND CONVENTION COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

FINDINGS – FINANCIAL STATEMENTS AUDIT

PRIOR FINDINGS

None

CURRENT FINDINGS

None