

MOREHEAD UTILITY PLANT BOARD
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

Board Members
Morehead Utility Plant Board
Morehead, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Morehead Utility Plant Board of the City of Morehead, Kentucky (the "Board") as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morehead Utility Plant Board of the City of Morehead, Kentucky, as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 9 and the schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions on pages 29 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The supplemental schedules contained on pages 32 through 40 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Kelley Galloway Smith Godsey, PSC

Ashland, Kentucky
November 27, 2017

Morehead Utility Plant Board

Management's Discussion and Analysis

Our discussion and analysis of MUPB's financial performance provides an overview of MUPB's financial activities for the fiscal years ended June 30, 2017 and 2016. This analysis reflects recent changes in governmental accounting standards including but not limited to significant changes in accounting for certain pension obligations. See the notes to the financial statements for further details.

FUND STRUCTURE

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

FINANCIAL HIGHLIGHTS

- MUPB's net position decreased by \$838,000 (3.0 percent) to total net position of about \$26.6 million.
- MUPB's operating revenues increased \$588,000 (6.3 percent), and operating expenses increased by \$566,000 (5.7 percent) resulting in an operating loss of about \$498,000, which is reduced from the \$519,000 operating loss a year ago.
- The most significant changes in net position were the decrease in MUPB's capital assets reflecting \$2.5 million of depreciation expense net of about \$942,000 in acquisitions of capital assets, normal repayment of long term debt in the amount of \$905,000 plus an additional \$249,000 net effect of the increased pension liability.

OVERVIEW OF THIS ANNUAL REPORT

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

NET POSITION

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

Table A-1

Condensed Statement of Net Position

		Business-type	
		<u>Activities</u>	
	<u>FYE 6-30-2017</u>	<u>FYE 6-30-2016</u>	<u>Increase</u> <u>(Decrease)</u>
Current and Other Assets	\$ 5,590,007	\$ 5,133,340	\$ 456,667
Capital Assets	36,644,602	38,391,782	(1,747,180)
Deferred Outflows	801,474	558,373	243,101
Total Assets and Deferred Outflows	<u>43,036,083</u>	<u>44,083,495</u>	<u>(1,047,412)</u>

Long-Term Liabilities	14,669,967	14,868,528	(198,561)
Current Liabilities	1,723,678	1,734,545	(10,867)
Deferred Inflows	-	-	-
Total Liabilities and Deferred Inflows	16,393,645	16,603,073	(209,428)
Net Position:			
Invested in Capital Assets, net of debt	24,175,846	25,259,089	(1,083,243)
Restricted	1,301,637	1,592,831	(291,194)
Unrestricted	1,164,955	628,502	536,453
Total Net Position	\$ 26,642,438	\$ 27,480,422	\$ (837,984)

Net position may serve over time as one useful indicator of a government's financial condition. MUPB's net position decreased \$838,000 (3.0%) compared to a slightly smaller decrease in the prior year. The largest area of change continues to be capital assets that decreased \$1.75 million due to \$900 thousand of asset purchases netted against \$2.5 million in depreciation. There were some increases in operating expenses, but a substantial amount of those increases were offset by continued increases in water and sewer revenue over the prior year. MUPB continues to deal with the effects of the new pension standards. With the new reporting change MUPB is allocated its proportionate share of the County Employees Retirement System's (CERS) net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. The current year net effect of the change in the net pension liability, deferred inflows and outflows is an increase in liability of about \$249,000. Decisions regarding the allocations are made by the administrators of the pension plan, not by MUPB management. Please review note disclosure 8 as well as the required supplementary information after the notes to financial statements for more detailed information.

Table A-2
Condensed Statement of Activities

	Business-Type		
	<u>Activities</u>		
	<u>FYE 6-30-2017</u>	<u>FYE 6-30-2016</u>	<u>Increase Decrease</u>
Revenues			
<u>Operating Revenues, pledged as security:</u>			
Gas Sales	\$ 3,189,887	\$ 2,602,028	\$ 587,859
Water Sales	3,343,371	3,249,145	94,226
Sewer Sales	3,334,881	3,311,173	23,708
Penalties	54,833	52,501	2,332
Other Operating Revenues	67,857	188,274	(120,417)
Total operating revenues	<u>9,990,829</u>	<u>9,403,121</u>	<u>587,708</u>
Non-operating revenues			
Interest Income	47,465	54,774	(7,309)
Grants	-	47,027	(47,027)
Other non-operating revenues	25,915	-	25,915
	<u>73,380</u>	<u>101,801</u>	<u>(28,421)</u>
Total revenues	<u>10,064,209</u>	<u>9,504,922</u>	<u>559,287</u>

Expenses

Operating expenses:

Gas	2,761,883	2,108,036	653,847
Water	2,786,233	3,050,976	(264,743)
Sewer	3,794,819	3,678,772	116,047
General and administrative costs	<u>1,145,487</u>	<u>1,084,653</u>	<u>60,834</u>
Total operating expenses	<u>10,488,422</u>	<u>9,922,437</u>	<u>565,985</u>

Non-operating revenues (expenses)

Interest expense	(263,701)	(277,752)	14,051
Other non-operating expenses	<u>(359,127)</u>	<u>(937)</u>	<u>(358,190)</u>
Net non-operating revenues (expenses)	<u>(622,828)</u>	<u>(278,689)</u>	<u>(344,139)</u>
Income (loss) before contributions	<u>(1,047,041)</u>	<u>(696,204)</u>	<u>(350,837)</u>
Capital contributions	<u>209,057</u>	<u>86,175</u>	<u>122,882</u>
Change in net position	<u>(837,984)</u>	<u>(610,029)</u>	<u>(227,955)</u>

Net position -

Beginning	<u>27,480,422</u>	<u>28,090,451</u>	<u>(610,029)</u>
Net position - Ending	<u>\$ 26,642,438</u>	<u>\$ 27,480,422</u>	<u>\$ (837,984)</u>

MUPB's operating revenue increased by 6.3 percent (\$588,000) and the operating expenses increased 5.7% (\$566,000). The significant increase in gas revenues and corresponding cost of gas purchased was attributable to both an increase in the price per unit cost and a slight increase in consumption even though we still had a mild winter. Water and sewer rate increases affected the increase in those revenues reflecting an increase in revenues of \$94,000 and \$24,000 respectively in those departments. There were some substantial decreases in the water department expenses resulting in a net decrease of that department's expenses by \$265,000. Operating expenses for the sewer increased by a modest 3.2%. The full impact of the utility rate increases were offset by some reduction in industrial usage due to recycling and conservation practices installed during the year. The majority of the other non-operating expenses relate to a \$284,000 write-off of a receivable from FEMA which is a portion of the flood reimbursement submitted several years ago. Capital grants and contributions in aid of construction decreased by \$47,000 and had very little effect toward the change in net position. Interest expense was reduced by about \$14,000 reflecting a small decrease due to continued regular bond payments during the prior fiscal year.

BUDGET HIGHLIGHTS

For the year ended June 30, 2017, the MUPB budget was not amended during the year. Historically, the budget process is very rigorous and department supervisors are charged with creating a realistic workable budget. Instead of amending the budget throughout the year, the budget has continually been used as a tool to evaluate the ability of each department to make yearly plans and to identify those instances where the results have deviated from that plan. Gas sales/purchases and capital outlay/debt service/interest expense are areas that are often confusing or misunderstood in regard to the budget. Gas purchased for resale has continued to be volatile and it is difficult to accurately budget nearly a year in advance. The accompanying revenue is determined based on the current cost; however the budgeted margin between gas sales and cost of gas purchased has always been used to evaluate the

budgeted amounts for consistency. MUPB uses a budget format at the request of the City that reconciles beginning cash carryover to ending cash carryover. Bond sinking fund, depreciation reserve payments, and capital outlay are budgeted instead of depreciation and interest expense. These amounts are then factored into the budget as depreciation (\$2,557,200) and interest expense (\$266,820). Also, MUPB has normally not reflected capital contributions in the budgeted amounts. Those differences will be explained in the narrative at the end of the worksheet. A comparison of the final budget to actual amounts is presented in Table A-3 that follows.

Table A-3

Condensed Statement of Activities - Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Charges for Services	\$ 9,588,750	\$ 9,868,139	\$ 279,389
Other Operating Revenues	59,550	122,690	63,140
Non-operating revenues	40,000	25,915	(14,085)
Tap Fees	<u>100,000</u>	<u>209,057</u>	<u>109,057</u>
Total Revenues	<u>\$ 9,788,300</u>	<u>\$ 10,225,801</u>	<u>\$ 437,501</u>

Condensed Statement of Activities - Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Operating expenses	\$ 10,287,750	\$ 10,488,422	\$ 200,672
Non-operating expenses	<u>266,820</u>	<u>263,701</u>	<u>(3,119)</u>
Total Expenditures	<u>\$ 10,554,570</u>	<u>\$ 10,752,123</u>	<u>\$ 197,553</u>

MUPB budgeted for a total of \$9.8 million in revenues and \$10.55 million in expenses for the year ended June 30, 2017. Overall, this resulted in a variance in budgeted revenues in the amount of about \$437,000 more than budgeted. There are amounts that are over and under budget that factor into this difference. Gas revenues are volatile due to seasonal variations and undeterminable per unit cost spikes during the winter months. This year's difference in budgeted to actual gas revenue resulted in \$489,000 of actual revenue more than the budgeted amount. Water revenue finished the year on budget while sewer revenue was at 94% of budget resulting in \$3,000 and \$214,000 of revenue over budget and under budget respectively. In the analysis of budgeted expenses there is a net variance in operating expenses of about \$201,000 more spent than budgeted. Of that amount about \$186,000 is attributable directly to gas purchased more than budgeted and is related to the above increased gas revenues. Other than this gas purchased variance the other significant changes in operating expenses relate to additional costs related to the sewer plant maintenance of the lift stations (\$99,000) coupled with a significant reduction in water plant chemical costs. (\$164,000).

CAPITAL ASSETS

MUPB has a total of \$88.2 million invested in capital assets used in providing utility services including buildings, land, utility treatment plants, utility distribution systems, vehicles and equipment. This represents an increase of \$835,000 (1.0%) from the prior year.

Table A-4

Capital Assets at Year End Without Depreciation

	Business-Type		
		<u>Activities</u>	
	<u>FYE 6-30-2017</u>	<u>FYE 6-30-2016</u>	<u>Change</u>
Land	\$ 184,404	\$ 184,404	\$ -
Buildings	929,605	910,316	19,289
Gas, water and sewer systems	84,020,857	83,432,440	588,417
Equipment	2,697,600	2,621,516	76,084
Construction in progress	<u>353,121</u>	<u>201,773</u>	<u>151,348</u>
Total Capital Assets	<u>\$ 88,185,587</u>	<u>\$ 87,350,449</u>	<u>\$ 835,138</u>

MUPB budgeted about \$1.125 million in capital outlay for the year ended June 30, 2017. These items represent normal planned expenditures for utility system improvements.

DEBT

MUPB closed the year with \$12.5 million in short and long-term debt outstanding. There was one new loan advanced during the year totaling \$242,000. Normal debt retirement was made during the year in the amount of about \$905,000. Scheduled retirements for the next five years average \$964,000 per year.

Table A-5

Debt Outstanding at Year End

	Business-type		
		<u>Activities</u>	
	<u>FYE 6-30-2017</u>	<u>FYE 6-30-2016</u>	<u>Change</u>
Revenue Bonds and Notes Payable	\$ 12,468,756	\$ 13,132,693	\$ (663,937)
Total Debt			
Outstanding	<u>\$ 12,468,756</u>	<u>\$ 13,132,693</u>	<u>\$ (663,937)</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Management considered many factors when formulating the budget for the year ended June 30, 2018. Since the budget is prepared several months before the end of the current fiscal year, there can always be considerable changes between budgets and results. There is still minimal expectation that remaining FEMA reimbursements from the 2010 flood will be received, however due to the uncertainty of the timeline for those reimbursements, budgets have been prepared without anticipating that cash flow in the next year. The current global economic conditions including the volatility of energy costs, which give an indirect impact to natural gas prices, oil, coal and all energy sources have been reflected in the affected accounts. Management uses various tools to the best of its abilities to lessen the severity of winter price spikes in natural gas for the benefit of the consumer. The price of gas affects the revenue but does not directly impact the margins of MUPB due to the rate structure as there is a fixed margin

per unit of gas sold. Energy costs are anticipated to incur increases due to the sensitive nature of the industry and continuing environmental costs incurred by the producing companies, however natural gas prices are expected to stay relatively stable due to recent developments in northeast US sources of gas. The expectation is for water and sewer consumption to remain relatively stable with some slight increase. Since there is little growth for the water and sewer systems, some type of flexible rate structure may need to be implemented in order to maintain the costs of the current system. Long-term planning has begun for future improvement or expansion of both the water and sewer plants due to reaching near capacity limits. These investments when incurred will be substantial and unless there is substantial growth relative to when these investments are made, there will be a significant impact on the user rates. There has been some recovery of commercial utility usage due to decreased natural gas costs and economic conditions in certain industries, however it is unknown if these increases are sustainable and economic conditions will most likely continue to affect the commercial and residential consumption.

CONTACTING MUPB'S FINANCIAL MANAGEMENT

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

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF NET POSITION
 JUNE 30, 2017 AND 2016**

ASSETS	2017	2016
Unrestricted assets:		
Cash and cash equivalents	\$ 1,092,905	\$ 563,863
Customer accounts receivable	1,395,893	1,177,006
Inventory	506,325	373,429
Prepaid expenses	15,837	179,110
Total unrestricted assets	3,010,960	2,293,408
Restricted assets:		
Cash and cash equivalents	606,691	514,598
Investments	1,667,888	1,742,615
Interest receivable	13,920	13,921
Other receivables	290,548	568,798
Total restricted assets	2,579,047	2,839,932
Total current assets	5,590,007	5,133,340
Capital assets:		
Land	184,404	184,404
Buildings and improvements	929,605	910,316
Water, gas and sewer system	84,020,857	83,432,440
Equipment	2,697,600	2,621,516
Construction in progress	353,121	201,773
	88,185,587	87,350,449
Less: accumulated depreciation	(51,540,985)	(48,958,667)
Net capital assets	36,644,602	38,391,782
Total assets	42,234,609	43,525,122
DEFERRED OUTFLOWS		
Deferred outflows - pension	801,474	558,373
Total deferred outflows of resources	801,474	558,373
Total assets and deferred outflows of resources	\$ 43,036,083	\$ 44,083,495

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF NET POSITION (CONCLUDED)
 JUNE 30, 2017 AND 2016**

LIABILITIES	2017	2016
Current liabilities (payable from unrestricted assets):		
Accounts payable	\$ 196,113	\$ 348,780
Accrued payroll liabilities	219,061	109,780
Other accrued liabilities	31,094	28,884
Total current liabilities (payable from unrestricted assets)	446,268	487,444
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	947,464	920,858
Customer deposits	309,290	304,452
Accrued interest payable	20,656	21,791
Total current liabilities (payable from restricted assets)	1,277,410	1,247,101
Long-term liabilities:		
Long-term debt, net of current portion	11,521,292	12,211,835
Net pension liability	3,148,675	2,656,693
Total long-term liabilities	14,669,967	14,868,528
Total liabilities	16,393,645	16,603,073
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	-	-
Total deferred inflows of resources	-	-
NET POSITION		
Net investment in capital assets	24,175,846	25,259,089
Restricted	1,301,637	1,592,831
Unrestricted	1,164,955	628,502
Total net position	26,642,438	27,480,422
Total liabilities, deferred inflows of resources, and net position	\$ 43,036,083	\$ 44,083,495

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

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF REVENUES, EXPENSES,
 AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
OPERATING REVENUES		
Gas revenue	\$ 3,189,887	\$ 2,602,028
Water revenue	3,343,371	3,249,145
Sewer revenue	3,334,881	3,311,173
Penalties	54,833	52,501
Other income	67,857	188,274
Total operating revenues	9,990,829	9,403,121
OPERATING EXPENSES		
Gas	2,761,883	2,108,036
Water	2,786,233	3,050,976
Sewer	3,794,819	3,678,772
Administrative	1,145,487	1,084,653
Total operating expenses	10,488,422	9,922,437
Operating loss	(497,593)	(519,316)
NON-OPERATING REVENUES (EXPENSES)		
Investment income (loss)	(27,263)	129,537
Grant bad debt expense	(284,399)	-
Grant income	-	47,027
Other revenues (expenses)	25,915	(75,700)
Interest expense	(263,701)	(277,752)
Total non-operating revenues (expenses)	(549,448)	(176,888)
LOSS BEFORE CONTRIBUTIONS	(1,047,041)	(696,204)
CAPITAL CONTRIBUTIONS	209,057	86,175
CHANGE IN NET POSITION	(837,984)	(610,029)
NET POSITION, BEGINNING OF YEAR	27,480,422	28,090,451
NET POSITION, END OF YEAR	\$ 26,642,438	\$ 27,480,422

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

**CITY OF MOREHEAD, KENTUCKY
MOREHEAD UTILITY PLANT BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**CASH FLOWS FROM OPERATING
ACTIVITIES**

	2017	2016
Cash received from customers	\$ 9,649,252	\$ 9,103,381
Other cash receipts	122,690	240,775
Cash payments for gas supply	(2,334,662)	(1,604,427)
Cash payments for water supply	(1,390,091)	(1,683,452)
Cash payments for sewer supply	(1,494,415)	(1,546,543)
Cash payments to employees for services	(1,647,721)	(1,603,490)
Cash payments for administrative costs	(801,133)	(813,662)
Net cash provided by operating activities	2,103,920	2,092,582

**CASH FLOWS FROM CAPITAL
AND RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(835,138)	(876,262)
Interest paid on revenue bonds	(264,836)	(278,866)
Principal paid on long-term debt	(905,858)	(892,201)
Increase (decrease) in customer deposits	4,838	8,492
Other expense	25,915	(52,268)
Proceeds from debt	241,921	-
Capital grants received	202,908	171,966
Net cash used for capital and related financing activities	(1,530,250)	(1,919,139)

CASH FLOWS FROM INVESTING ACTIVITIES

Call of investments	-	250,000
Investment income	47,465	63,279
Net cash provided by (used for) investing activities	47,465	313,279

Net increase (decrease) in cash and cash equivalents	621,135	486,722
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Cash and cash equivalents, beginning of year	1,078,461	591,739
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Cash and cash equivalents, end of year	\$ 1,699,596	\$ 1,078,461
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Cash and Cash Equivalents Reported As:

Unrestricted	\$ 1,092,905	\$ 563,863
Restricted	606,691	514,598
	\$ 1,699,596	\$ 1,078,461

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF CASH FLOWS (CONCLUDED)
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

RECONCILIATION OF OPERATING LOSS
 TO NET CASH PROVIDED BY
 OPERATING ACTIVITIES

	2017	2016
Operating loss	\$ (497,593)	\$ (519,316)
Adjustments:		
Depreciation	2,582,318	2,567,627
Net pension expense	248,881	200,426
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(218,887)	(58,965)
(Increase) decrease in inventories	(132,896)	5,844
(Increase) decrease in prepaid expenses	163,273	(680)
Increase (decrease) in accounts payable and accrued wages	(41,176)	(102,354)
Net cash provided by operating activities	\$ 2,103,920	\$ 2,092,582
Non-cash investing activities:		
Change in fair value of investments	\$ (74,727)	\$ 80,790

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

**MOREHEAD UTILITY PLANT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

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

Investments

To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding fair value measurement of investments is disclosed in Note (11). Funds of Morehead Utility Plant Board are required to be invested in accordance with the investment policy adopted by MUPB. The investment policy allows MUPB to invest in those instruments authorized by KRS 66.480. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a bank failure, Morehead Utility Plant Board’s deposits may not be returned to it. Morehead Utility Plant Board does not have a deposit policy for custodial credit risk. As of June 30, 2017 and 2016 \$-0- and \$-0-, respectively, of Morehead Utility Plant Board’s bank balance of \$2,337,501 and \$1,806,209, respectively, was exposed to custodial credit risk, detailed as follows:

	<u>2017</u>	<u>2016</u>
Insured	\$ 939,979	\$ 921,883
Uninsured, uncollateralized	-	-
Collateral held by pledging bank’s trust department not in Morehead Utility Plant Board’s name	<u>1,397,522</u>	<u>884,326</u>
Total bank deposits	<u>\$ 2,337,501</u>	<u>\$ 1,806,209</u>

Accounts Receivable

Customer accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off

through a charge to the valuation allowance and a credit to customer accounts receivable. For the years ended June 30, 2017 and 2016, allowance for doubtful accounts were \$172,088 and \$143,288, respectively.

Inventories

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

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

Budget

In June of 2016, MUPB adopted the annual management budget in the amount of \$10,554,570 for the fiscal year ended June 30, 2017, detailed as follows:

Gas	\$ 2,431,522
Water	2,313,854
Sewer	1,948,675
Administrative	1,036,499
Depreciation	<u>2,557,200</u>
Total operating expense	<u>10,287,750</u>
Interest expense	<u>266,820</u>
Total non-operating expense	<u>266,820</u>
Total expenses	<u>\$ 10,554,570</u>

Property, Plant and Equipment

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

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

Total depreciation expense was \$2,582,318 and \$2,567,627 for the years ended June 30, 2017 and 2016, respectively.

Capital and Operating Grants

Grants that are restricted to the purchase of property, plant and equipment are recorded as other income, per GASB 33. MUPB received \$-0- and \$47,027 in grants for the years ended June 30, 2017 and 2016, respectively.

Infrastructure assets constructed by outside entities then taken over by MUPB are also recorded as other income per GASB 33. The total amount of the assets taken over were \$-0- and \$-0- for the years ended June 30, 2017 and 2016, respectively. These amounts constitute noncash transactions.

Gas, water and sewer tap fees are also recorded as capital contribution income, per GASB 33. These fees represent the increased value in property, plant and equipment resulting from the addition of

customers to the utility distribution systems. The total amount of tap fees was \$209,057 and \$86,175 for the years ended June 30, 2017 and 2016, respectively.

Unbilled Gas Revenue and Gas Purchased

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

Cash and Cash Equivalents

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

Estimates

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

Capitalized Interest

MUPB follows the policy of capitalizing interest as a component of construction cost. For the year ended June 30, 2017, total interest cost was \$263,701, of which \$-0- was capitalized. For the year ended June 30, 2016, total interest cost was \$277,752, of which \$-0- was capitalized.

Restricted and Unrestricted Resources

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

Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits ("OPEB"). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the Board beginning with its year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. The adoption of this standard did not have a material effect on the Board's financial statements.

In February 2017, the GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments.

Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be effective for the Board beginning with its year ending June 30, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* (“GASB 85”), which seeks to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses several topics, including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (i.e., pensions and other post-employment benefits (OPEB)). In particular, this Statement covers:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

GASB 85 will be effective for the Board beginning with its year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (“GASB 86”), which seeks to (1) improve consistency in accounting and financial reporting for certain debt extinguishments and (2) enhance the decision-usefulness of such information. GASB 86 establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (i.e., resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. Additionally, it amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB 86 establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other

monetary assets were acquired. GASB 86 will be effective for the Board beginning with its year ending June 30, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the Board beginning with its year ending June 30, 2021 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

(2) Reclassifications

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

(3) Restricted Assets

The restricted assets in the accompanying financial statements are restricted as to use by bond ordinance (See Note (4)) or external parties. Restricted assets at June 30, 2017 are as follows:

Description	Cash and Investments	Accrued Interest Receivable	Grants/ Loans Receivable	Total
Assets restricted by grant agreements or bond ordinance:				
With paying agents	\$ 971,918	\$ 13,920	\$ -	\$ 985,838
Depreciation accounts	1,020,854	-	-	1,020,854
Construction reserves	-	-	290,548	290,548
Customer deposits	281,807	-	-	281,807
	<u>\$ 2,274,579</u>	<u>\$ 13,920</u>	<u>\$ 290,548</u>	<u>\$ 2,579,047</u>

A schedule of restricted assets at June 30, 2016 is as follows:

Description	Cash and Investments	Accrued Interest Receivable	Grants Receivable	Total
Assets restricted by grant agreements or bond ordinance:				
With paying agents	\$ 921,962	\$ 13,921	\$ -	\$ 935,883
Depreciation accounts	1,034,530	-	-	1,034,530
Construction reserves	-	-	568,798	568,798
Customer deposits	300,721	-	-	300,721
	<u>\$ 2,257,213</u>	<u>\$ 13,921</u>	<u>\$ 568,798</u>	<u>\$ 2,839,932</u>

Investments

At June 30, 2017, MUPB had the following investments and maturities:

Investment Type -	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Securities	\$ 1,113,740	\$ -	\$ -	\$ 1,113,740	\$ -
Long-term CDs	554,148	-	297,773	256,375	-

At June 30, 2016, MUPB had the following investments and maturities:

Investment Type -	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Government Securities	\$ 1,170,531	\$ -	\$ -	\$ 1,170,531	\$ -
Long-term CDs	572,084	-	307,771	264,313	-

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

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

(4) Long-Term Debt

Morehead Utility Plant Board's bonded indebtedness and other long-term notes at June 30, 2017 and 2016 are summarized as follows:

	Rate	Original Issue	2017	2016
1966 issue	4.375-5.25%	\$ 1,715,000	\$ 15,000	\$ 15,000
Rural development series 2001A	3.25%	4,500,000	3,521,000	3,611,000
KIA wastewater treatment plant	1.00%	7,189,123	3,413,037	3,773,694
RUS wastewater treatment plant	4.13%	1,500,000	1,283,500	1,308,000
KIA water plant expansion and upgrade	1.80%	5,500,000	1,713,844	2,007,708
KIA Big Woods Project	1.00%	801,203	267,344	285,751
KIA Phase IV Project	1.00%	1,293,013	461,157	490,569
KIA WWTP	1.00%	3,000,000	1,551,953	1,640,971
KIA 801 & 158	1.00%	1,800,000	241,921	-
			12,468,756	13,132,693
Less current maturities			(947,464)	(920,858)
Total long term debt			\$ 11,521,292	\$ 12,211,835

Morehead Utility Plant Board's bonded indebtedness and other long-term notes at June 30, 2017 and 2016 are detailed as follows:

	Balance June 30, 2015	Advances	Repayments	Balance June 30, 2016	Advances	Repayments	Balance June 30, 2017
1966 issue	\$ 15,000	\$ -	\$ -	\$ 15,000	\$ -	\$ -	\$ 15,000
2001A	3,699,000	-	(88,000)	3,611,000	-	(90,000)	3,521,000
KIA WWTP	4,130,771	-	(357,077)	3,773,694	-	(360,657)	3,413,037
RUS WWTP	1,331,000	-	(23,000)	1,308,000	-	(24,500)	1,283,500
KIA water plant expansion	2,296,353	-	(288,645)	2,007,708	-	(293,864)	1,713,844
KIA Big Woods	303,976	-	(18,225)	285,751	-	(18,407)	267,344
KIA Phase IV	519,689	-	(29,120)	490,569	-	(29,412)	461,157
KIA WWTP	1,729,105	-	(88,134)	1,640,971	-	(89,018)	1,551,953
KIA 801 & 158	-	-	-	-	241,921	-	241,921
Total	\$14,024,894	\$ -	\$ (892,201)	\$13,132,693	\$ 241,921	\$ (905,858)	\$12,468,756

Morehead Utility Plant Board's bonded indebtedness current and long-term balances at June 30, 2017 are detailed as follows:

	<u>Current</u>	<u>Long-term</u>
1966 issue	\$ 15,000	\$ -
RD series 2001A	94,000	3,427,000
KIA WWTP	364,272	3,048,765
RUS WWTP	25,500	1,258,000
KIA water plant expansion and upgrade	299,178	1,414,666
KIA-Big Woods	18,592	248,752
KIA Phase IV	29,707	431,450
KIA- WWTP	89,910	1,462,043
KIA- 801 & 158	11,305	230,616
Total	<u>\$ 947,464</u>	<u>\$ 11,521,292</u>

The long-term debt service requirements are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 947,464	\$ 268,062	\$ 1,215,526
2019	945,996	252,387	1,198,383
2020	961,676	236,406	1,198,082
2021	977,008	220,098	1,197,106
2022	991,994	203,457	1,195,451
2023-2027	3,276,838	814,457	4,091,295
2028-2032	1,694,238	571,112	2,265,350
2033-2037	1,242,042	368,825	1,610,867
2038-2042	1,278,000	159,549	1,437,549
2043-2045	153,500	10,396	163,896
Total	<u>\$ 12,468,756</u>	<u>\$ 3,104,749</u>	<u>\$ 15,573,505</u>

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

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

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

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

On April 23, 2004, Morehead Utility Plant Board obtained a loan from the United States Department of Agriculture and Rural Utilities Service (RUS). The issue amount of the loan was \$1,500,000, which was made to finance the construction of the Wastewater Treatment Plant

expansion. The loan is secured by a pledge of revenues, bears an interest rate of 4.13%, and has a life of 20 years.

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

On March 28, 2002, Morehead Utility Plant Board borrowed the aggregate principal amount of \$4,500,000 of City of Morehead Water System Revenue Bonds, Series 2001, consisting of Series A Bonds. The purpose of the issue was for permanent financing of construction costs associated with the Water Treatment Plant Expansion and System Upgrade. The bonds are secured by a pledge of the revenues. The bonds require an annual installment beginning December 1, 2004, and in each consecutive year until December 1, 2041. The Series A Bonds bear an interest rate of 3.25%.

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

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

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

On March 1, 2017, Morehead Utility Plant Board obtained a loan from Kentucky Infrastructure Authority for the KY 801 and KY 158 Sewer Extension Project. The issue amount of the loan was \$1,800,000. This loan is secured by a pledge of revenues, bears an interest rate of 0.75%, and has a maturity life of 20 years from the completion date of the project.

(5) Net Position

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

The balance of net investment in capital assets represents funds that have been used to acquire pump stations, storage facilities, meter stations, etc., constructed and operated by Morehead Utility Plant Board, net of outstanding debt. The balance was \$24,175,846 and 25,259,089 at June 30, 2017 and 2016, respectively.

MUPB had a balance of \$1,301,637 and \$1,592,831 at June 30, 2017 and 2016, respectively, for restricted net position that is required to be reserved in accordance with bond ordinances or Board designations.

MUPB had a balance of \$1,164,955 and \$628,502 at June 30, 2017 and 2016, respectively, for unrestricted net position.

(6) Nonmonetary Transactions

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

(7) Property, Plant and Equipment

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

	Balance June 30, 2015	Additions	Reclassifications and Disposals	Balance June 30, 2016	Additions	Reclassifications and Disposals	Balance June 30, 2017
Land	\$ 184,404	\$ -	\$ -	\$ 184,404	\$ -	\$ -	\$ 184,404
Buildings	910,316	-	-	910,316	19,289	-	929,605
Water, gas and sewer	82,800,554	631,886	-	83,432,440	588,417	-	84,020,857
Construction in progress	160	201,613	-	201,773	258,874	(107,526)	353,121
Equipment	2,608,212	42,764	(29,460)	2,621,516	76,084	-	2,697,600
	86,503,646	876,263	-	87,350,449	942,664	(107,526)	88,185,587
Accumulated depreciation	(46,391,040)	(2,567,627)	-	(48,958,667)	(2,582,318)	-	(51,540,985)
Total property, plant and equip- ment, net	<u>\$ 40,112,606</u>	<u>\$ (1,691,364)</u>	<u>\$ (29,460)</u>	<u>\$ 38,391,782</u>	<u>\$ (1,639,654)</u>	<u>\$ (107,526)</u>	<u>\$ 36,644,602</u>

(8) Pension Plan

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

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

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

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions. The Board's contractually required contribution rate for the years ended June 30, 2017 and 2016 was 18.68% (13.95%-pension, 4.73%-insurance) and 17.06% (12.42%-pension, 4.64%-insurance) of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. Contributions to the pension plan from the Board were \$234,035 and \$189,728 for the years ended June 30, 2017 and 2016, respectively.

CERS - Medical Insurance Plan

Plan description: CERS health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Funding policy: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2016 measurement period, CERS allocated 4.73% of the 18.68% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan.

Contributions: The Board's total payroll for employees covered under CERS for the years ending June 30, 2017, 2016, and 2015 was \$1,677,667, \$1,527,597 and \$1,438,064, respectively. The Board's contributions to CERS for the years ending June 30, 2017, 2016, and 2015 were \$79,354, \$70,881, and \$70,752, respectively, and equaled the actually required contributions for the year.

Funded status: The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2016 was as follows:

Total medical benefit obligation	<u>000's omitted</u> \$ 2,988,121
Net position available for benefits at actuarial value	(2,079,811)
Unfunded medical benefit obligation	<u>\$ 908,310</u>

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

At June 30, 2017, the Board reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2016 was determined using standard roll-forward techniques. The Board's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2016. At June 30 2016, the Board's proportion was 0.06395%, which was an increase of 0.00216% from its proportion measured as of June 30, 2015.

For the years ended June 30, 2016 and 2015, the Board recognized pension expense of \$248,881 and \$200,426. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 13,746	\$ -
Changes of assumptions	166,800	-
Net difference between projected and actual earnings on pension plan investments	296,008	-

Changes in proportion and differences between MUPB contributions and proportionate share of contributions	90,885	-
MUPB contributions subsequent to the measurement date	234,035	-
Total	<u>\$ 801,474</u>	<u>\$ -</u>

At June 30, 2016, MUPB reported deferred outflows of resources of \$558,373 for differences between expected and actual experience and earnings, changes of assumptions, proportionate share of contributions, and MUPB contributions subsequent to the measurement date.

At June 30, 2017, MUPB reported deferred outflows of resources for MUPB contributions subsequent to the measurement date of \$234,035. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These amounts will be recognized in pension expense as follows:

<u>Year</u>	
2018	\$ 217,120
2019	158,532
2020	126,023
2021	65,764
	<u>\$ 567,439</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	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 long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	(0.25)%
	<u>100.0%</u>	

Discount Rate: 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 contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate: The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Board'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:

	<u>1% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Board's proportionate share of the net pension liability	\$ 3,924,000	\$ 3,148,675	\$ 2,484,000

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

Payables to the pension plan: At June 30, 2017 and 2016, MUPB had payables to CERS in the amount of \$32,440 and \$27,596, respectively, for June's covered payroll with contributions required to be paid in July.

(9) Commitments and Contingencies

Purchased Gas Contract

Due to the volatile nature of gas pricing and contracts with gas suppliers, MUPB has entered into an agreement with a supplier in order to secure and maintain adequate supplies of gas at the lowest

possible prices. However, due to government regulation, confusion among the suppliers as to whom actually supplied the gas (since it comes through the same line), and other billing errors, it is not uncommon to be billed or refunded amounts for gas supplied in prior months. These amounts are sometimes significant and the accounting policy is to record these amounts as adjustments to current gas purchases or revenues when billed or received. In an effort to stabilize availability and cost of purchased natural gas, on September 1, 1993, MUPB entered into a sales agreement with Tennessee Gas Pipeline Company. This contract allows MUPB to purchase a maximum of 2,600 decatherms (Dth) per day at a rate as stated in the current sellers rate Schedule GS-2, filed with the Federal Energy Regulatory Commission.

Water Purchase Contract

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

The Board has an outstanding construction commitment in the amount of \$1,157,065 at June 30, 2017 for the KY 801 and KY 158 Sewer Extension Project.

(10) Risk Management

Morehead Utility Plant Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, MUPB also carries commercial insurance for all other risks of loss such as workers compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Fair Value Measurements

The MUPB has determined the fair value of certain assets and liabilities through the application of GASB 72, *Fair Value Measurements and Application*.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value, a reasonable point within the range, is most representative of fair value under current market conditions.

Under GASB 72, the MUPB groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Level 1 Inputs. For these securities, the MUPB obtains fair value measurements from identical instruments traded in active markets.

Level 2 Inputs. For these securities, the MUPB obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Level 3 Inputs. For these securities, the valuation methods used were (1) discounted cash flow model valuation, where the expected cash flows of the securities are discounted using a yield that incorporates compensation for illiquidity and (2) a market comparables method, where the securities are valued based on indications, from the secondary market, of what discounts buyers demand when purchasing similar securities.

The following tables present the MUPB's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

<u>June 30, 2017</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
U.S. Government Securities	\$ 1,113,740	\$ -	\$ 1,113,740	\$ -
Long-term CD's	554,148	-	554,148	-
<u>June 30, 2016</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
U.S. Government Securities	\$ 1,170,531	\$ -	\$ 1,170,531	\$ -
Long-term CD's	572,084	-	572,084	-

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30, 2017**

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
	2017 (2016)	2016 (2015)	2015 (2014)
Board's proportion of the net pension liability	0.064%	0.062%	0.060%
Board's proportionate share of the net pension liability	\$ 3,148,675	\$ 2,656,693	\$ 1,936,000
Board's covered-employee payroll	\$ 1,527,597	\$ 1,438,064	\$ 1,368,777
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	206.119%	184.741%	141.440%
Plan fiduciary net position as a percentage of the total pension liability	55.500%	59.970%	66.800%

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

CITY OF MOREHEAD, KENTUCKY
MOREHEAD UTILITY PLANT BOARD
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 234,035	\$ 189,728	\$ 183,353	\$ 188,070
Contributions in relation to the contractually required contribution	<u>234,035</u>	<u>189,728</u>	<u>183,353</u>	<u>188,070</u>
Contribution deficiency (excess)	-	-	-	-
Board's covered-employee payroll	\$ 1,677,667	\$ 1,527,597	\$ 1,438,064	\$ 1,368,777
Board's proportionate share of the contractually required contributions as a percentage of its covered-employee payroll	13.95%	12.42%	12.75%	13.74%

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

**CITY OF MOREHEAD, KENTUCKY
MOREHEAD UTILITY PLANT BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

(1) CHANGES OF ASSUMPTIONS

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015 listed below:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

CERS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.

SUPPLEMENTAL INFORMATION

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Revenue Refunding and Improvement Bonds Dated December 1, 1966
June 30, 2017

Fiscal Year Ending June 30	Principal Due Dec. 1	Interest		Total Requirements	Principal Outstanding at End of Year
		December 1	June 1		
2018	\$ 15,000	\$ 487	\$ -	\$ 15,487	\$ -
Total	<u>\$ 15,000</u>	<u>\$ 487</u>	<u>\$ -</u>	<u>\$ 15,487</u>	

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Rural Development Revenue Bonds, Series 2001A
June 30, 2017

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2018	\$ 94,000	\$ 112,905	\$ 206,905	\$ 3,427,000
2019	96,000	109,818	205,818	3,331,000
2020	100,000	106,633	206,633	3,231,000
2021	103,000	103,334	206,334	3,128,000
2022	106,000	99,938	205,938	3,022,000
2023	110,000	96,428	206,428	2,912,000
2024	113,000	92,804	205,804	2,799,000
2025	117,000	89,066	206,066	2,682,000
2026	121,000	85,199	206,199	2,561,000
2027	125,000	81,201	206,201	2,436,000
2028	129,000	77,074	206,074	2,307,000
2029	133,000	72,816	205,816	2,174,000
2030	137,000	68,429	205,429	2,037,000
2031	142,000	63,895	205,895	1,895,000
2032	146,000	59,215	205,215	1,749,000
2033	151,000	54,389	205,389	1,598,000
2034	156,000	49,400	205,400	1,442,000
2035	161,000	44,249	205,249	1,281,000
2036	166,000	38,935	204,935	1,115,000
2037	172,000	33,443	205,443	943,000
2038	177,000	27,771	204,771	766,000
2039	183,000	21,921	204,921	583,000
2040	189,000	15,876	204,876	394,000
2041	195,000	9,636	204,636	199,000
2042	199,000	3,230	202,230	-
Total	<u>\$ 3,521,000</u>	<u>\$ 1,617,605</u>	<u>\$ 5,138,605</u>	
<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2018	\$ 94,000	\$ 112,905	\$ 206,905	
2019	96,000	109,818	205,818	
2020	100,000	106,633	206,633	
2021	103,000	103,334	206,334	
2022	106,000	99,938	205,938	
2023 - 2027	586,000	444,698	1,030,698	
2028 - 2032	687,000	341,429	1,028,429	
2033 - 2037	806,000	220,416	1,026,416	
2038 - 2042	943,000	78,434	1,021,434	
	<u>\$ 3,521,000</u>	<u>\$ 1,617,605</u>	<u>\$ 5,138,605</u>	

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority Wastewater Revolving Loan Fund Program Fund A
June 30, 2017

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2018	\$ 364,272	\$ 36,838	\$ 401,110	\$ 3,048,765
2019	367,924	33,222	401,146	2,680,841
2020	371,612	29,570	401,182	2,309,229
2021	375,338	25,882	401,220	1,933,891
2022	379,101	22,156	401,257	1,554,790
2023	382,901	18,394	401,295	1,171,889
2024	386,740	14,593	401,333	785,149
2025	390,617	10,754	401,371	394,532
2026	394,532	6,877	401,409	-
Total	<u>\$ 3,413,037</u>	<u>\$ 198,286</u>	<u>\$ 3,611,323</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 364,272	\$ 36,838	\$ 401,110
2019	367,924	33,222	401,146
2020	371,612	29,570	401,182
2021	375,338	25,882	401,220
2022	379,101	22,156	401,257
2023 - 2026	1,554,790	50,618	1,605,408
	<u>\$ 3,413,037</u>	<u>\$ 198,286</u>	<u>\$ 3,611,323</u>

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Rural Utilities Service Loan
June 30, 2017

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2018	\$ 25,500	\$ 57,758	\$ 83,258	\$ 1,258,000
2019	26,500	56,610	83,110	1,231,500
2020	27,500	55,418	82,918	1,204,000
2021	29,000	54,180	83,180	1,175,000
2022	30,000	52,875	82,875	1,145,000
2023	31,500	51,525	83,025	1,113,500
2024	33,000	50,108	83,108	1,080,500
2025	34,500	48,623	83,123	1,046,000
2026	36,000	47,070	83,070	1,010,000
2027	37,500	45,450	82,950	972,500
2028	39,500	43,763	83,263	933,000
2029	41,000	41,985	82,985	892,000
2030	43,000	40,140	83,140	849,000
2031	45,000	38,205	83,205	804,000
2032	47,000	36,180	83,180	757,000
2033	49,000	34,065	83,065	708,000
2034	51,500	31,860	83,360	656,500
2035	53,500	29,543	83,043	603,000
2036	56,000	27,135	83,135	547,000
2037	58,500	24,615	83,115	488,500
2038	61,000	21,983	82,983	427,500
2039	64,000	19,238	83,238	363,500
2040	67,000	16,358	83,358	296,500
2041	70,000	13,343	83,343	226,500
2042	73,000	10,193	83,193	153,500
2043	76,000	6,908	82,908	77,500
2044	77,500	3,488	80,988	-
Total	<u>\$ 1,283,500</u>	<u>\$ 958,619</u>	<u>\$ 2,242,119</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 25,500	\$ 57,758	\$ 83,258
2019	26,500	56,610	83,110
2020	27,500	55,418	82,918
2021	29,000	54,180	83,180
2022	30,000	52,875	82,875
2023 - 2027	172,500	242,776	415,276
2028 - 2032	215,500	200,273	415,773
2033 - 2037	268,500	147,218	415,718
2038 - 2042	335,000	81,115	416,115
2043 - 2044	153,500	10,396	163,896
	<u>\$ 1,283,500</u>	<u>\$ 958,619</u>	<u>\$ 2,242,119</u>

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority Revolving Loan Fund Program Fund F
June 30, 2017

Fiscal Year Ending June 30	Principal Due Dec. 1 & June 1	Interest Due Dec. 1 & June 1	Servicing Fee	Total Requirements	Principal Outstanding at End of Year
2018	\$ 299,178	\$ 29,509	\$ 4,099	\$ 332,786	\$ 1,414,666
2019	304,587	24,100	3,347	332,034	1,110,079
2020	310,094	18,592	2,582	331,268	799,985
2021	315,700	12,985	1,804	330,489	484,285
2022	321,409	7,277	1,011	329,697	162,876
2023	162,876	1,466	204	164,546	-
Total	<u>\$ 1,713,844</u>	<u>\$ 93,929</u>	<u>\$ 13,047</u>	<u>\$ 1,820,820</u>	

Fiscal Year Ending	Principal	Interest	Total
2018	\$ 299,178	\$ 33,608	\$ 332,786
2019	304,587	27,447	332,034
2020	310,094	21,174	331,268
2021	315,700	14,789	330,489
2022	321,409	8,288	329,697
2023	162,876	1,670	164,546
	<u>\$ 1,713,844</u>	<u>\$ 106,976</u>	<u>\$ 1,820,820</u>

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority Big Woods Project
June 30, 2017

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1 & June 1</u>	<u>Interest Due Dec. 1 & June 1</u>	<u>Servicing Fee</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2018	\$ 18,592	\$ 2,627	\$ 525	\$ 21,744	\$ 248,752
2019	18,779	2,441	488	21,708	229,973
2020	18,967	2,252	451	21,670	211,006
2021	19,157	2,062	412	21,631	191,849
2022	19,349	1,870	374	21,593	172,500
2023	19,543	1,676	335	21,554	152,957
2024	19,739	1,480	296	21,515	133,218
2025	19,937	1,283	257	21,477	113,281
2026	20,137	1,083	217	21,437	93,144
2027	20,339	881	176	21,396	72,805
2028	20,543	677	135	21,355	52,262
2029	20,748	471	94	21,313	31,514
2030	20,956	263	53	21,272	10,558
2031	10,558	53	11	10,622	-
Total	<u>\$ 267,344</u>	<u>\$ 19,119</u>	<u>\$ 3,824</u>	<u>\$ 290,287</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 18,592	\$ 3,152	\$ 21,744
2019	18,779	2,929	21,708
2020	18,967	2,703	21,670
2021	19,157	2,474	21,631
2022	19,349	2,244	21,593
2023 - 2027	99,695	7,684	107,379
2028 - 2032	72,805	1,757	74,562
	<u>\$ 267,344</u>	<u>\$ 22,943</u>	<u>\$ 290,287</u>

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority Phase IV
June 30, 2017

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1 & June 1</u>	<u>Interest Due Dec. 1 & June 1</u>	<u>Servicing Fee</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2018	\$ 29,707	\$ 4,538	\$ 908	\$ 35,153	\$ 431,450
2019	30,005	4,240	848	35,093	401,445
2020	30,306	3,939	788	35,033	371,139
2021	30,610	3,635	727	34,972	340,529
2022	30,916	3,328	666	34,910	309,613
2023	31,226	3,018	604	34,848	278,387
2024	31,539	2,705	541	34,785	246,848
2025	31,856	2,389	478	34,723	214,992
2026	32,175	2,070	412	34,657	182,817
2027	32,498	1,747	349	34,594	150,319
2028	32,823	1,421	284	34,528	117,496
2029	33,152	1,092	219	34,463	84,344
2030	33,485	760	152	34,397	50,859
2031	33,820	424	85	34,329	17,039
2032	17,039	86	17	17,142	-
Total	<u>\$ 461,157</u>	<u>\$ 35,392</u>	<u>\$ 7,078</u>	<u>\$ 503,627</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 29,707	\$ 5,446	\$ 35,153
2019	30,005	5,088	35,093
2020	30,306	4,727	35,033
2021	30,610	4,362	34,972
2022	30,916	3,994	34,910
2023 - 2027	159,294	14,313	173,607
2028 - 2032	150,319	4,540	154,859
	<u>\$ 461,157</u>	<u>\$ 42,470</u>	<u>\$ 503,627</u>

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority Waste Water Treatment Plant Project
June 30, 2017

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1 & June 1</u>	<u>Interest Due Dec. 1 & June 1</u>	<u>Servicing Fee</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2018	\$ 89,910	\$ 15,296	\$ 3,059	\$ 108,265	\$ 1,462,043
2019	90,811	14,394	2,879	108,084	1,371,232
2020	91,722	13,484	2,697	107,903	1,279,510
2021	92,641	12,564	2,513	107,718	1,186,869
2022	93,570	11,635	2,327	107,532	1,093,299
2023	94,508	10,697	2,139	107,344	998,791
2024	95,456	9,750	1,950	107,156	903,335
2025	96,413	8,793	1,758	106,964	806,922
2026	97,379	7,826	1,565	106,770	709,543
2027	98,355	6,850	1,370	106,575	611,188
2028	99,342	5,864	1,173	106,379	511,846
2029	100,337	4,868	974	106,179	411,509
2030	101,343	3,863	772	105,978	310,166
2031	102,359	2,846	569	105,774	207,807
2032	103,385	1,820	364	105,569	104,422
2033	104,422	784	157	105,363	-
Total	\$ 1,551,953	\$ 131,334	\$ 26,266	\$ 1,709,553	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 89,910	\$ 18,355	\$ 108,265
2019	90,811	17,273	108,084
2020	91,722	16,181	107,903
2021	92,641	15,077	107,718
2022	93,570	13,962	107,532
2023 - 2027	482,111	52,698	534,809
2028 - 2032	506,766	23,113	529,879
2033	104,422	941	105,363
	\$ 1,551,953	\$ 157,600	\$ 1,709,553

Morehead Utility Plant Board
Schedule of Bond and Interest Requirements
Kentucky Infrastructure Authority KY 801 and 158 Sewer Extension Project
June 30, 2017

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2018	\$ 11,305	\$ 1,776	\$ 13,081	\$ 230,616
2019	11,390	1,691	13,081	219,226
2020	11,475	1,605	13,080	207,751
2021	11,562	1,518	13,080	196,189
2022	11,649	1,431	13,080	184,540
2023	11,736	1,344	13,080	172,804
2024	11,825	1,255	13,080	160,979
2025	11,914	1,166	13,080	149,065
2026	12,003	1,077	13,080	137,062
2027	12,094	986	13,080	124,968
2028	12,185	895	13,080	112,783
2029	12,277	804	13,081	100,506
2030	12,369	711	13,080	88,137
2031	12,462	618	13,080	75,675
2032	12,556	524	13,080	63,119
2033	12,650	430	13,080	50,469
2034	12,745	335	13,080	37,724
2035	12,841	239	13,080	24,883
2036	12,938	142	13,080	11,945
2037	11,945	45	11,990	-
Total	<u><u>\$241,921</u></u>	<u><u>\$18,592</u></u>	<u><u>\$ 260,513</u></u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 11,305	\$ 1,776	\$ 13,081
2019	11,390	1,691	13,081
2020	11,475	1,605	13,080
2021	11,562	1,518	13,080
2022	11,649	1,431	13,080
2023 - 2027	59,572	5,828	65,400
2028 - 2032	61,849	3,552	65,401
2033 - 2037	63,119	1,191	64,310
	<u><u>\$241,921</u></u>	<u><u>\$18,592</u></u>	<u><u>\$ 260,513</u></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**

Board Members
Morehead Utility Plant Board
Morehead, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Morehead Utility Plant Board (the "Board"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
November 27, 2017