

MOREHEAD RECREATION, TOURISM  
AND CONVENTION COMMISSION  
Morehead, Kentucky

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS  
for the year ended June 30, 2018

## CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
<i>Government Wide Financial Statements</i>	
Statement of Net Position	10
Statement of Activities	11
<i>Fund Financial Statements</i>	
Balance Sheet - Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Notes to the Financial Statements	15-27
<i>Required Supplementary Information</i>	
Schedule of Employer's Proportionate Share of Net Pension Liability	28
Schedule of Pension Contributions – Net Pension Liability	29
Schedule of Employer's Proportionate Share of Net OPEB Liability	30
Schedule of Pension Contributions – Net OPEB Liability	31
Notes to the Required Supplementary Information	32
<i>Supplementary Information</i>	
Statements of Revenues, Expenditures and Changes in Fund Balance- Governmental Fund- Budget to Actual	33-35
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	36-37
Schedule of Findings and Responses	38

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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, 2018, 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, 2018, 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 proportionate share of net pension liability and schedule of pension 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 proportionate share of net pension liability and schedule of pension 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 27, 2018, 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 27, 2018

This report contains 38 pages.



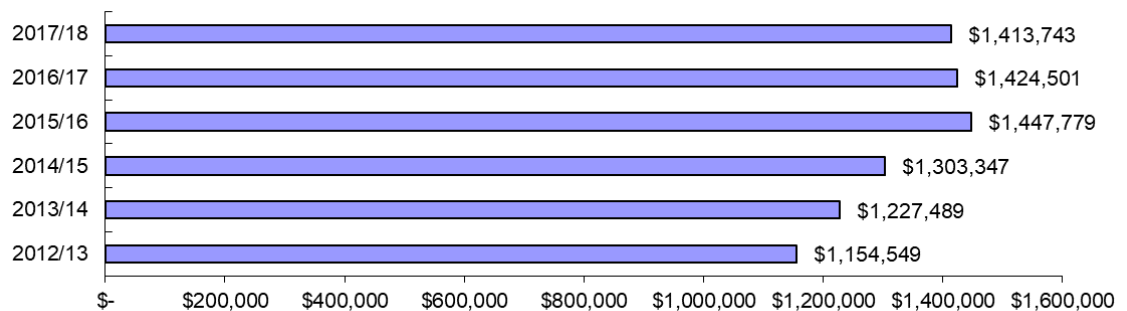
## Management Discussion and Analysis (MD&A) Fiscal Year Ending June 30, 2018

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, 2018. 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

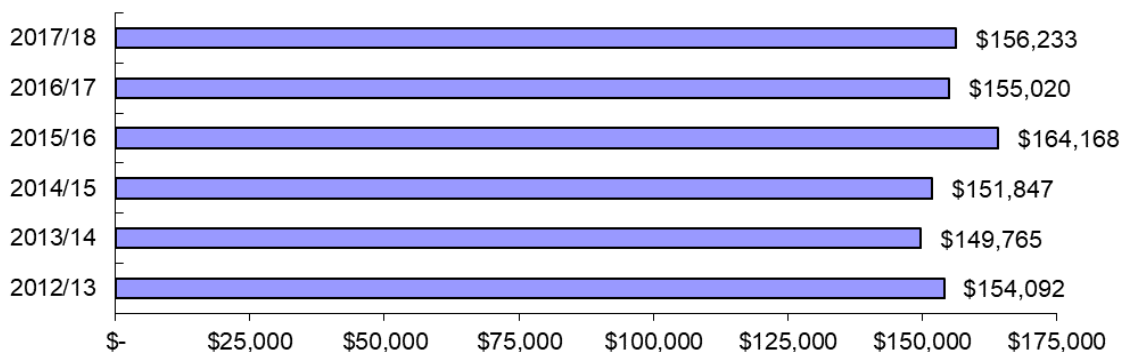
- Restaurant tax collections have decreased \$10,758 (or 0.76%) to \$1,413,743 from \$1,424,501 in the prior year. A historical graph follows:

FY2017/2018 RESTAURANT TAX



- Hotel tax collections have increased (or 0.8%) to \$156,233 from \$155,020 in the prior year. A historical graph follows:

FY2017/2018 HOTEL/MOTEL TAX



- Revenues from Conference Center operations increased \$4,248 (or 9.8%) to \$47,824 from 43,576 the prior year.
- General and Administrative Expenses increased \$36,277 (or 3.5%) to \$1,006,803 from \$1,043,080 in the prior year.
- The Commission's Long-Term Debt increased \$271,556 (or 4.2%) to \$6,805,656 from \$6,534,100 in the prior year.
- The Commission's net assets decreased \$82,600 (or 1.3%) to \$1,140,028 from \$1,222,628 in the prior year's end.

### **Overview of the Financial Statements**

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

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

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

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

### **Overview of the Commission**

#### **Morehead Visitor Center overview**

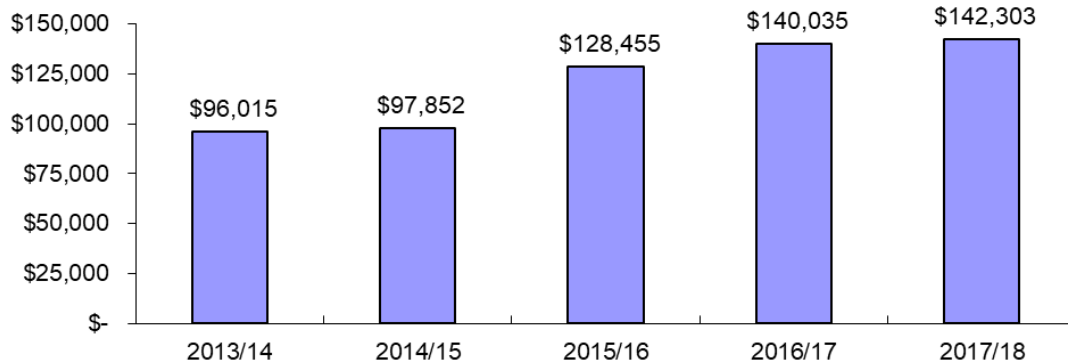
The Morehead Visitor Center continues to welcome guests from various states, cities and countries including Australia, Costa Rica, Switzerland, Sweden, Ireland, Great Britain, Netherlands, Canada and Hawaii. The gift shop continues to get a little traffic, but we have already started planning for an update in our offerings for FY1819. Our staff at the center also monitors results for all tourism social media, updates the tourism website and communicates online updates with the Kentucky Department of Tourism. All requests for information are filtered through the center so better tracking is available for the Commission.

#### **Morehead Conference Center overview**

The Morehead Conference Center (MCC) continues to grow a large client base including clients that have been with us since opening the center. Over the past 12 years, we have welcomed over 4,500 events, averaging 380 events per year. Our Kentucky Proud Expo continues to be a success. Most notably, the event is coordinated annually by the facility interns. This is an excellent opportunity for event planners attending Morehead State University to get hands on

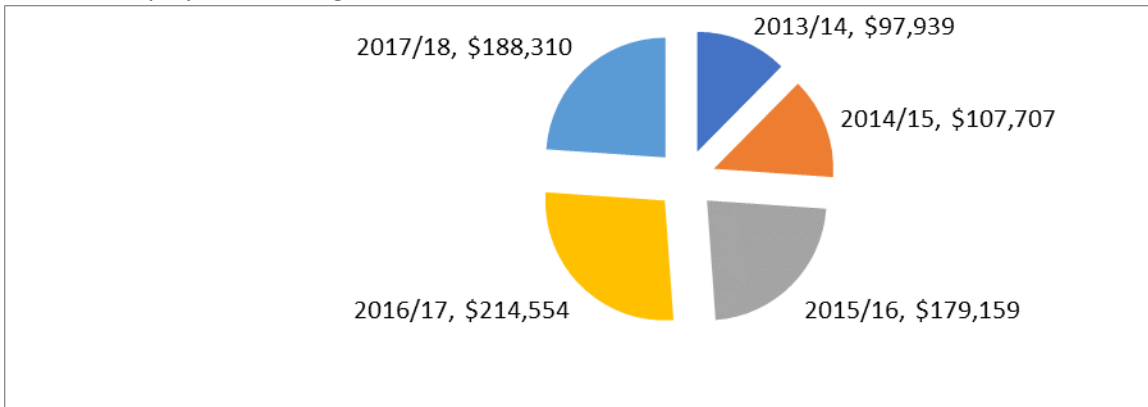
experience with oversight from the MCC Director. Many depreciation schedule items have reached their life expectancy, but our dedicated team have cared for and monitored them so well that we are able to save on replacement costs for several more years.

#### MCC EVENTS, CATERING AND RENTAL INCOME



#### Morehead Tourism overview

Morehead Tourism continues to rank our success by the increase in economic development throughout our community. We received high distinction from the state when we received the Kentucky Travel Industry Association Economic Engine Award in not one but two categories! Additionally, our Executive Director was awarded the Member of the Year for the tourism industry. We provided over \$150,000 in local marketing event support to 53 outstanding events or projects. Our most notable funding projects include \$20,000-Morehead Freedom Fest, \$14,000-Morehead Arts and Eats Festival, various fishing events, \$7,500-Appalachian Classic and economic development marketing efforts. We are the leader in the state for all things relating to Kentucky Trail Town. Our community is the model for the state trail town efforts and start up communities. The Morehead-Rowan County Chamber of Commerce recognized us during their annual event as the Community Organization of the Year and we received another award for the Community Partners Award for the Morehead Bark Park project. We participated in eight large travel shows and continue to work with distribution vendors across the state and adjoining states to display our visitor guides.



### 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 \$1,140,028 as of June 30, 2018. The Commission's net position decreased by \$82,600 for the fiscal year ended June 30, 2018. The largest portion of net position (95.0%) reflects the Commission's investment in capital assets (e.g. land, buildings, machinery, and equipment);

	2018	2017	Dollar Change	Percent Change
Current and Other Assets	\$ 246,902	\$ 281,579	\$ (34,677)	(0.12)
Capital Assets, net	7,841,434	7,743,707	\$ 97,727	0.01
Deferred outflow of resources	246,811	102,788	144,023	1.40
Total Assets	<u>\$ 8,335,147</u>	<u>\$ 8,128,074</u>	<u>\$ 207,073</u>	<u>0.03</u>
Current Liabilities	\$ 322,842	\$ 360,776	\$ (37,934)	(0.11)
Long-Term Debt Outstanding	6,805,656	6,534,100	\$ 271,556	0.04
Deferred inflow of resources	66,621	10,570	56,051	1.00
Total Liabilities	<u>\$ 7,195,119</u>	<u>\$ 6,905,446</u>	<u>\$ 289,673</u>	<u>0.04</u>
Net Position:				
Invested in Capital Assets, net of debt	\$ 1,524,875	\$ 1,384,134	\$ 140,741	0.10
Restricted	-	-	-	0.00
Unrestricted	(384,847)	(161,506)	(223,341)	1.38
Total Net Position	<u>\$ 1,140,028</u>	<u>\$ 1,222,628</u>	<u>\$ (82,600)</u>	<u>(0.07)</u>

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 \$-384,847 is unrestricted.



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

<b>Program Revenues</b>				
Charges for Services	47,824	43,576	4,248	0.10
Operating Grants and Contributions	31,909	32,106	(197)	(0.01)
Total Revenue	79,733	75,682	4,051	0.05
<b>Program Expenses</b>				
General and Administrative	1,292,767	1,276,428	16,339	0.01
Special Events and Catering	160,539	227,604	(67,065)	(0.29)
Debt Services	302,218	318,255	(16,037)	(0.05)
Total Expenses	1,755,524	1,822,287	(66,763)	(0.04)
Net (Expense) Revenue	(1,675,791)	(1,746,605)	70,814	0.09
<b>General Revenues</b>				
Hotel Tax	156,233	155,020	1,213	0.01
Restaurant Tax	1,413,743	1,424,501	(10,758)	(0.01)
Rental service	119,274	113,050	6,224	0.06
RCAC Mgmt Fee	-	-	-	
Other	55,379	43,802	11,577	0.26
Total General Revenue	1,744,629	1,736,373	8,256	0.00
Extraordinary Item-loss on disposal of capital asset	(15,655)	(995)		
Change in Net Position	\$ 53,183	\$ (11,227)	\$ 64,410	5.74

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, 2018, total \$7,841,434 (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**  
Total Primary Government

	\$
Land	2,516,671
Buildings & Land Improvements	7,254,652
Vehicles	34,995
Equipment	407,742
Land Improvements	<u>89,257</u>
Total Capital Assets	10,303,317
Accumulated Depreciation	2,461,883
Capital Assets, net of Depreciation	<u>\$ 7,841,434</u>

7

**Debt-** As of June 30, 2018, The Commission had a total debt outstanding of \$6,316,559. The Kentucky League of Cities Bonds are secured by the assets associated with the debt.

**Table 4**  
**The Commission's Outstanding Debt**

	<u><b>Total Primary Government</b></u>
Kentucky League of Cities & Citizens Bank	\$ 6,316,559
Total Debt Outstanding	<u>\$ 6,316,559</u>

The Commission's total debt decreased by \$43,014 during the past fiscal year. The decrease was due to the payment on outstanding debt

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

### **Economic Factors and Next Years Budget**

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

The Commission considered many factors when setting the FYE June 30, 2019 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, 2018**

	Governmental Activities
<b><u>ASSETS &amp; DEFERRED OUTFLOWS</u></b>	
<i>Current Assets</i>	
Cash and cash equivalents	\$ 114,153
Accounts receivable	<u>132,749</u>
Total Current Assets	<u>246,902</u>
<i>Noncurrent Assets</i>	
Buildings, land and equipment (Note 3)	10,303,317
Accumulated depreciation	<u>(2,461,883)</u>
Total Noncurrent Assets	<u>7,841,434</u>
Deferred outflows of resources	<u>246,811</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 8,335,147</u>
<b><u>LIABILITIES &amp; DEFERRED INFLOWS</u></b>	
<i>Current Liabilities</i>	
Accounts payable	\$ 23,213
Accrued liabilities	9,211
Accrued interest	19,751
Accrued compensated absences	6,882
Notes and leases payable (Note 4)	<u>263,785</u>
Total Current Liabilities	<u>322,842</u>
<i>Noncurrent Liabilities</i>	
Accrued compensated absences	16,058
Notes and leases payable (Note 4)	6,052,774
Net pension liability	548,455
Net pension liability - OPEB	<u>188,369</u>
Total Noncurrent Liabilities	<u>6,805,656</u>
Deferred inflows of resources	<u>66,621</u>
Total Liabilities and Deferred Inflows of Resources	<u>7,195,119</u>
<b><u>NET POSITION</u></b>	
Net investment in capital assets	1,524,875
Unrestricted	<u>(384,847)</u>
Total Net Position	<u>\$ 1,140,028</u>

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

**MOREHEAD RECREATION, TOURISM & CONVENTION COMMISSION**

**Statement of Activities**

**For the year ended June 30, 2018**

<u>Functions/Programs</u>		<u>Program Revenues</u>			<b>Net (Expense)</b>
					<b>Revenue and</b>
		<b>Charges for</b>	<b>Operating</b>		<b>Changes in</b>
<u>Primary Government</u>	<u>Expenses</u>	<u>Services</u>	<u>Grants</u>		<u>Net Position</u>
<b>Governmental Activities</b>					
General and administrative	\$ 1,292,767	\$ -	\$ 31,909	\$ (1,260,858)	
Events and catering	160,539	47,824		(112,715)	
Interest on long-term debt	302,218	-	-	(302,218)	
Total Governmental Activities	1,755,524	47,824	31,909	(1,675,791)	
<b>General Revenues</b>					
				156,233	
Hotel tax				1,413,743	
Restaurant tax				10,841	
Miscellaneous				89,086	
Facility room rental				5,393	
Facility service income				16,470	
Studio rentals				11,910	
Auditorium rentals				3,731	
Art classes				1,808	
Other rentals				2,240	
Gallery sales				15,500	
City of Morehead income				876	
Gift shop sales				16,241	
Fundraisers and donations				557	
Interest					
Total General Revenues				1,744,629	
Extraordinary item--loss on disposal of capital asset				(15,655)	
<b>Change in Net Position</b>				53,183	
Net position -- beginning				1,222,628	
Prior period adjustment				(135,783)	
<b>Net position -- ending</b>				<u>\$ 1,140,028</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, 2018**

<b><u>ASSETS</u></b>	<u>General</u>
<i>Current Assets</i>	
Cash and cash equivalents	\$ 114,153
Accounts receivable	<u>132,749</u>
Total Assets	<u>246,902</u>
 <b><u>LIABILITIES &amp; FUND BALANCE</u></b>	
<i>Current Liabilities</i>	
Accounts payable	\$ 23,213
Accrued liabilities	9,211
Accrued interest	19,751
Accrued compensated absences	<u>6,882</u>
Total Liabilities	<u>59,057</u>
 <b><u>FUND BALANCE</u></b>	
Unrestricted	<u>187,845</u>
Total Fund Balance	<u>187,845</u>
Total Liabilities and Fund Balance	<u>\$ 246,902</u>
Total Governmental Fund Balance	\$ 187,845
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,303,317
Accumulated depreciation	(2,461,883)
Deferred outflows are not due and payable in the current period and therefore are not reported in the funds	246,811
Deferred inflows are not due and payable in the current period and therefore are not reported in the funds	(66,621)
Long-term liabilities, including bonds/notes payable and net pension liability, are not due and payable in the current period and therefore are not reported in the funds	<u>(7,069,441)</u>
Net Position of Governmental Activities	<u>\$ 1,140,028</u>

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

**MOREHEAD RECREATION, TOURISM & CONVENTION COMMISSION**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**For the year ended June 30, 2018**

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**REVENUES**

Hotel tax	\$ 156,233
Restaurant tax	1,413,743
State matching funds	31,909
Events and catering	47,824
Loan proceeds	250,000
Facility room rental	89,086
Facility service income	5,393
Studio rentals	16,470
Auditorium rentals	11,910
Art classes	3,731
Other rentals	1,808
Gallery sales	2,240
City of Morehead income	15,500
Gift shop sales	876
Fundraisers and donations	16,241
Other	<u>11,398</u>
 Total Revenues	 <u>2,074,362</u>

**EXPENSES**

General and administrative	1,006,803
Events & catering	160,539
Debt service - principal	293,013
Debt service - interest	302,218
Capital outlay	<u>331,543</u>
 Total Expenses	 <u>2,094,116</u>
 Excess (deficiency) of revenues over expenses	  <u>(19,754)</u>
 <b>Net Change in Fund Balance</b>	  <b>(19,754)</b>
 Fund balances - beginning	 <u>207,599</u>
 <b>Fund balances - ending</b>	 <b><u>\$ 187,845</u></b>

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, 2018**

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Reconciliation to government-wide change in net position:

Net change in fund balances	\$ (19,754)
increase/(decrease):	
capital outlay expenditures capitalized	331,543
principal on long-term debt	293,013
loan proceeds	(250,000)
GASB 68/75 pension adjustment	(68,076)
loss on disposal of capital asset	(15,655)
depreciation on governmental activities' capital assets	(218,161)
change in long-term portion of accrued compensated absences	<u>273</u>
Change in net position, Governmental Activities	<u>\$ 53,183</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, 2018

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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  
Basic Financial Statements  
Government-wide financial statements  
Fund financial statements  
Notes to the financial statements  
GASB 68 and GASB 75 Schedules  
Notes to the required supplementary information

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, 2018 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 \$23,378 and a depreciation reserve account in the amount of \$83,730, totaling \$114,053. The remaining \$100 is held as petty cash. Deposits with financial institutions are secured as follows:

	Reconciled Bank Balance	Deposits in Bank
Insured by FDIC	\$ 114,053	\$ 117,319
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>\$ 114,053</u>	<u>\$ 117,319</u>

### 3. Capital Assets

The following is a summary of capital assets for the year ended June 30, 2018:

Description	Balance, 07/01/17	Adjustments/ Additions	Deletions	Balance, 06/30/18
Land, non-depreciable	\$ 2,266,671	\$ 250,000	\$ -	\$ 2,516,671
Convention Center	7,274,852	-	20,200	7,254,652
Automobiles	34,398	34,995	34,398	34,995
Equipment	361,194	46,548	-	407,742
Land improvements	89,257	-	-	89,257
Total	<u>\$ 10,026,372</u>	<u>\$ 331,543</u>	<u>\$ 54,598</u>	<u>\$ 10,303,317</u>
Accumulated depreciation	<u>\$ 2,282,665</u>	<u>\$ 218,161</u>	<u>\$ 38,943</u>	<u>\$ 2,461,883</u>
Capital assets, net of accumulated depreciation	<u>\$ 7,743,707</u>			<u>\$ 7,841,434</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

#### 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, 2018 was 4.04%. The Commission entered into this lease for acquisition, construction, installation and equipping of a convention center that is located in Morehead, Kentucky.

	Principal	Interest	Fees	Total Payment
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	192,578	98,006	19,074	309,658
2024-2028	1,121,153	362,264	71,575	1,554,992
2029-2033	<u>1,199,481</u>	<u>108,597</u>	<u>23,658</u>	<u>1,331,736</u>
Total	<u>\$ 3,194,244</u>	<u>\$ 1,033,564</u>	<u>\$ 204,234</u>	<u>\$ 4,432,042</u>

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, 2018 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
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	70,622	24,114	5,441	100,177
2024-2028	407,362	74,531	18,774	500,667
2029-2030	158,406	5,646	2,828	166,880
Total	\$ 887,965	\$ 226,991	\$ 53,624	\$ 1,168,580

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, 2018 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
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	55,576	32,870	6,849	95,295
2024-2028	311,198	128,074	27,669	466,941
2029-2033	375,141	58,479	15,024	448,644
2034-2035	90,926	2,175	1,345	94,446
Total	\$ 1,035,491	\$ 374,449	\$ 82,186	\$ 1,492,126

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, 2018 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
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	43,536	31,960	7,153	82,649
2024-2028	249,519	130,781	30,470	410,770
2029-2033	312,429	73,453	19,993	405,875
2034-2036	193,764	10,933	5,384	210,081
Total	\$ 955,076	\$ 391,643	\$ 94,675	\$ 1,441,394

### Notes Payable

On December 21, 2017, the Commission signed a promissory note with The Citizens Bank for \$250,000 that was used to purchase land from the City of Morehead, Kentucky. To secure the payment of the promissory note, the Commission pledged, assigned and transferred to The Citizens Bank a first priority interest in the following collateral: The City of Morehead, Kentucky, Restaurant Tax Receipts.

The Commission will pay this note in 59 regular payments of \$1,837 and one irregular payment estimated at \$184,123. First payment is due on January 21, 2018, and the final payment is due on December 21, 2022.

	Principal	Interest	Total Payment
2019	\$ 12,759	\$ 9,290	\$ 22,049
2020	13,266	8,783	22,049
2021	13,793	8,256	22,049
2022	14,341	7,708	22,049
2023	189,624	3,045	192,669
Total	\$ 243,783	\$ 37,082	\$ 280,865

### Changes in Leases and Notes Payable

During the year ended June 30, 2018, the following changes occurred:

Description	07/01/2017	Proceeds	Principal Paid	06/30/2018	Current Portion
Kentucky League of Cities	\$ 6,359,573	\$ -	\$ 286,797	\$ 6,072,776	\$ 251,026
The Citizens Bank	-	250,000	6,217	243,783	12,759
Total	\$ 6,359,573	\$ 250,000	\$ 293,014	\$ 6,316,559	\$ 263,785

### 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 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, 2018 was 19.18% (14.48% pension; 4.70% 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 \$48,963 for the year ended June 30, 2018. The contribution was allocated \$36,965 to the pension fund and \$11,998 to the insurance fund.

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

At June 30, 2018, the reported a liability of \$548,455 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017. At June 30, 2017, the Commission's proportionate share was 0.009370%.

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, 2018, the Commission recognized pension expense of \$95,575. At June 30, 2018, the Commission 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 Liability Experience	\$ 680	\$ 13,922
Changes in assumptions	101,205	-0-
Differences between expected and actual Investment Experience	43,437	36,653
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,538	6,184
Contributions subsequent to the measure date	<u>36,965</u>	<u>-0-</u>
Total	\$ 193,825	\$ 56,759

\$36,965 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, 2019. The remaining amount of \$100,101 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, 2019	\$ 42,881
June 30, 2020	43,799
June 30, 2021	20,463
June 30, 2022	(7,042)
June 30, 2023	-0-
Thereafter	<u>-0-</u>
Total	\$ 100,101

*Actuarial assumptions* - The total pension liability was determined by an actuarial valuation as of June 30, 2017 using standard roll-forward techniques, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	2.00%
Investment rate of return	6.25%, 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, 2017 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 6.25%.

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28-year amortization period of the unfunded actuarial accrued liability. The 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 6.25%. 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate for non-hazardous:

	1% Decrease <u>5.25%</u>	Current Discount Rate <u>6.25%</u>	1% Increase <u>7.25%</u>
Proportionate share of the net pension liability	\$ 691,720	\$ 548,455	\$ 428,615

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

#### 8. Other Postemployment Benefits Plan (OPEB)

Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS) is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

*Plan Description* - The Kentucky Retirement Systems' (KRS) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) plan that covers substantially all regular full-time members employed in positions of each participating county, city and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Membership in the CERS Non-hazardous Insurance Fund consisted of the following at June 30, 2016, the date of the latest actuarial valuation:



#### Membership Status

Inactive plan members currently receiving benefits	32,161
Inactive plan members entitled to but not yet receiving benefits	8,946
Active plan members	<u>80,409</u>
Total plan members	121,516

*Actuarial Assumptions* - The total OPEB liability, net OPEB liability and sensitivity information as of June 30, 2017, were based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for any of the systems. However, subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation and payroll growth historical trends. Based on this review, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017:

Inflation	2.30%
Payroll Growth Rate	2.00%, CERS non-hazardous
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
<u>Healthcare Trend Rates</u>	
Pre-65	Initial trend starting at 7.25% at January 01, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 01, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2008 - June 30, 2013. The investment return, price inflation and payroll growth assumptions were adopted by the Board in May and July 2017, for use with the June 30, 2017 valuation.

*Discount Rate* - The single discount rate of 5.84% for CERS non-hazardous is based on the long-term expected rate of return on OPEB plan investments of 6.25% and a long-term municipal bond rate of 3.56% as reported in Fidelity Index's *20-Year Municipal GO AA Index* as of June 30, 2017. 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 26-year amortization period of the unfunded actuarial accrued liability.

*Use of Estimates in the Preparation of the Schedules* - The preparation of the Schedules in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

The target allocation and best estimates of arithmetic nominal rates of return for each major asset class at June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash Equivalent	<u>2.00%</u>	1.88%
	100%	

*Implicit Subsidy* - The fully-insured premiums KRS pays for the KERS, CERS and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after the measurement date. The Commission's implicit subsidy for the year ended June 30, 2018 was \$2,302.

*Contributions* - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

For the fiscal year ended June 30, 2018, participating employers contributed 4.70% of each employee's covered payroll to the Kentucky Retirement Systems' Insurance Fund, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Employees hired after September 1, 2008 are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits, and the 1% contribution to the 401(h) account is non-refundable.

The Commission contributed \$11,999 for the year ended June 30, 2018 of the required contribution to the insurance fund. Total contributions to the insurance fund, including the implicit subsidy for the year ended June 30, 2017 were \$11,973. For additional information regarding contributions, please refer to the Defined Benefit Pension Plan footnote.

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* - At June 30, 2018, the Commission reported a liability of \$188,369 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled-forward to June 30, 2017 using generally accepted actuarial principles. The Commission's proportion of the net OPEB liability was determined using the Commission's actual contributions for the year ended June 30, 2017. This method is expected to be reflective of the Commission's

long-term contribution effort. For the year ended June 30, 2018, the Commission's proportion was 0.009370% which is equal to its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the Commission recognized OPEB expense of \$21,465. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability experience	\$ -0-	\$ 523
Effects of changes in assumptions	40,988	-0-
Differences between projected and actual earnings on plan investments	-0-	8,902
Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	437
Contributions subsequent to the measure date	<u>11,999</u>	<u>-0-</u>
Total	\$ 52,987	\$ 9,862

The \$11,999 of deferred outflows of resources resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as the net effect of deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2019	\$ 5,355
June 30, 2020	5,355
June 30, 2021	5,355
June 30, 2022	5,355
June 30, 2023	7,581
Thereafter	<u>2,125</u>
Total	\$ 31,126

*Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate* – The following presents the proportionate share of the net OPEB liability calculated using the single discount rate of 5.84%, as well as what the Commission's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (4.84 percent) or 1% higher (6.84 percent) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	4.84%	\$ 239,689
Current discount rate	5.84%	\$ 188,369
1% increase	6.84%	\$ 145,663

*Sensitivity of the Commission's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* - The following presents the proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1% lower or 1% higher than the current rates:

	Proportionate Share of Net OPEB Liability
1% decrease	\$ 144,489
Current healthcare cost trend rate	\$ 188,369
1% increase	\$ 245,411

#### 9. 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 2018 is \$18,500 for those under age 50, \$24,500 age 50 and up, and \$37,000 for special catch-up contributions. You can learn more about the plan by visiting the Kentucky Deferred Comp website at [www.KentuckyPlans.com](http://www.KentuckyPlans.com).

Employee contributions to the plan:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	\$8,985	\$ 5,450	\$6,320

#### 10. 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.

#### 11. Accrued Compensated Absences

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

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

The following schedule applies for maximum accrual:

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

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

Current portion	\$ 6,882
Noncurrent portion	<u>16,058</u>
Total	<u>\$ 22,940</u>

#### 12. Prior Period Adjustment

During June 30, 2018, the Commission implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with postemployment benefits other than pensions. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended.

The guidance contained in GASB Statement 75 changed how governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB). Under the new standards, GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires GASB Statement 75 to be applied retroactively. This accounting change results in the following prior period adjustment:

#### **Statement of Activities**

A prior period adjustment was made in the amount of \$135,783:

Debit | (Credit)

	<u>Amount</u>
<u>Account/Description</u>	
Net pension liability	\$ (103,462)
Net pension liability – OPEB	(188,369)
Deferred inflows of resources	(56,051)
Deferred outflows of resources	144,023
Pension expense (retirement contr.)	<u>68,076</u>
Total	\$ 135,783

#### 13. Noncurrent Liabilities

	Balance,			Balance,		
<u>Description</u>	<u>07/01/2017</u>	<u>Additions</u>	<u>Subtractions</u>	<u>06/30/2018</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Accrued compensated absences	\$ 23,329	\$ -	\$ 389	\$ 22,940	\$ 6,882	\$ 16,058
Notes & leases payable	6,359,573	250,000	293,014	6,316,559	263,785	6,052,774
Net pension liability	444,993	103,462		548,455	-	548,455
Net pension liability - OPEB	-	188,369	-	188,369	-	188,369
Total	<u>\$ 6,827,895</u>	<u>\$ 541,831</u>	<u>\$ 293,403</u>	<u>\$ 7,076,323</u>	<u>\$ 270,667</u>	<u>\$ 6,805,656</u>

## REQUIRED SUPPLEMENTARY INFORMATION

**Morehead Recreation, Tourism & Convention Commission**  
**Schedule of Employer's Proportionate Share of Net Pension Liability**  
**June 30, 2018**

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	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Proportion of net pension liability (asset)	0.008039%	0.009040%	0.009370%
Proportionate share of net pension liability (asset)	\$ 405,547	\$ 444,993	\$ 548,455
Covered employee payroll	\$ 220,070	\$ 215,601	\$ 228,165
Proportionate share of net pension liability (asset) as a percentage of covered employee payroll	184.28%	206.40%	240.38%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	0.00%

**Morehead Recreation, Tourism & Convention Commission**  
**Schedule of Pension Contributions - Net Pension Liability**  
**June 30, 2018**

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	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2018</u>
Contractually required contribution	\$ 26,778	\$ 31,829	\$ 36,965
Contributions in relation to the contractually required contribution	<u>26,778</u>	<u>31,829</u>	<u>36,965</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 215,601</u>	<u>\$ 228,165</u>	<u>\$ 255,281</u>
Contributions as a percentage of covered payroll	12.42%	13.95%	14.48%



**Morehead Recreation, Tourism & Convention Commission**  
**Schedule of Employer's Proportionate Share of Net OPEB Liability**  
**June 30, 2018**

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	<u>6/30/2017</u>
Proportion of net OPEB liability (asset)	0.009370%
Proportionate share of net OPEB liability (asset)	\$ 188,369
Covered employee payroll	\$ 228,165
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	82.56%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

**Morehead Recreation, Tourism & Convention Commission**  
**Schedule of Pension Contributions - Net OPEB Liability**  
**June 30, 2018**

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	<u>6/30/2018</u>
Statutorily required contribution	\$ 11,999
Contributions in relation to the statutorily required contribution	<u>11,999</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 255,281</u>
Contributions as a percentage of covered-employee payroll	4.70%

MOREHEAD RECREATION, TOURISM AND CONVENTION COMMISSION  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
For the year ended June 30, 2018

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**Net Pension Liability**

*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 |

**Net OPEB Liability**

*Changes of assumptions:* Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

*Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2017*

- |                                 |   |
|---------------------------------|---|
| • Valuation Date                | June 30, 2015   |
| • Experience Study              | July 01, 2008 – June 30, 2013   |
| • Actuarial Cost Method         | Entry Age Normal  |
| • Amortization Method           | Level Percent of Pay  |
| • Remaining Amortization Period | 28 Years, Closed  |
| • Payroll Growth Rate           | 4.00%   |
| • Asset Valuation Method        | 20% of the difference between the market value of assets & the expected actuarial value of assets is recognized       |
| • Inflation                     | 3.25%   |
| • Salary Increase               | 4.00%, average  |
| • Investment Rate of Return     | 7.50%   |
| • Healthcare Trend Rates        | Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years. |
| Pre-65                          | Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years. |
| Post-65                         |   |

## SUPPLEMENTARY 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, 2018**

	Original Budget	Amended Budget #1	Amended Budget #2 & Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>					
<b><u>Morehead Tourism Commission (MTC)</u></b>					
Carryover	\$ 91,761	\$ 91,761	\$ 92,374	\$ -	\$ (92,374)
Outdoor theatre grant	19,500	19,500	19,500	19,500	-
Hotel/motel tax	182,250	157,250	157,000	156,233	(767)
RCAC management fee	16,500	8,250	-	-	-
Restaurant tax - MTC	326,379	375,216	365,000	304,173	(60,827)
State matching funds	7,500	12,830	12,000	12,409	409
Reimbursements	2,500	18,532	10,000	10,841	841
Gift shop sales	-	\$ 4,250	\$ 5,000	876	(4,124)
Total MTC revenue	646,390	687,589	660,874	504,032	(156,842)
<b>EXPENSES</b>					
<b><u>Morehead Tourism Commission (MTC)</u></b>					
Accountant expense - MTC	7,000	7,000	7,200	5,950	1,250
Administrative expenses - City of Morehead	13,055	14,215	14,600	14,137	463
Administrative expenses - office supplies	5,000	5,000	5,000	4,780	220
Audit	7,500	6,450	7,500	6,450	1,050
Benefits - MTC	25,222	25,222	25,222	30,351	(5,129)
Cell phone expense	3,000	3,000	2,400	2,918	(518)
Copier lease	7,200	7,200	7,200	6,394	806
Executive assistant	36,012	20,735	-	-	-
Executive director	57,519	57,519	59,244	59,868	(624)
FICA & Medicare - MTC	10,074	10,074	-	-	-
Grant funding	237,055	212,055	187,055	138,310	48,745
Cave Run Storytelling Festival	-	-	3,500	-	3,500
Morehead Arts and Eats Festival	-	-	14,000	-	14,000
Morehead Freedom Fest	-	-	20,000	-	20,000
Morehead Kentucky Proud Expo	-	-	2,500	2,500	-
Morehead-Rowan Co EDC marketing	-	-	5,000	5,000	-
Rowan County Arts Center marketing	-	-	5,000	-	5,000
Legal	2,000	2,000	2,000	674	1,326
Marketing/travel - MTC	140,749	170,000	129,480	132,789	(3,309)
Moonlight stage	-	5,000	2,000	901	1,099
Morehead Visitor Center	-	25,000	10,000	14,909	(4,909)
Outdoor theatre grant expense	19,500	19,500	19,500	19,922	(422)
Payroll tax expenses - MTC	126	126	11,604	14,952	(3,348)
Postage/meter lease	7,000	5,000	1,500	1,913	(413)
RCAC building assistants (part-time)	5,000	5,000	5,000	15,372	(10,372)
RCAC director	38,162	47,000	48,900	48,876	24
Retirement - MTC	24,600	24,600	27,856	29,409	(1,553)
State unemployment	616	616	-	-	-
Visitor center program specialist	-	15,277	37,613	37,229	384
Total MTC expenses	646,390	687,589	660,874	593,604	(52,786)
Profit/(loss)	\$ -	\$ -	\$ -	\$ (89,572)	\$ (89,572)
<b><u>MTC Summary</u></b>					
Revenues	\$ 646,390	\$ 687,589	\$ 660,874	\$ 504,032	\$ (156,842)
Expenses	646,390	687,589	660,874	593,604	67,270
Profit/(loss)	\$ -	\$ -	\$ -	\$ (89,572)	\$ (89,572)

**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, 2018**

	<u>Original Budget</u>	<u>Amended Budget #1</u>	<u>Amended Budget #2 &amp; Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>					
<b><u>Morehead Conference Center (MCC)</u></b>					
Carryover	\$ 29,846	\$ 29,846	\$ 32,600	\$ -	\$ (32,600)
Catering	10,000	59,415	60,000	47,824	(12,176)
Facility room rental	100,000	100,000	100,000	89,086	(10,914)
Facility services income	5,000	3,000	5,000	5,393	393
Interest income	150	150	200	557	357
Restaurant tax - MCC	979,137	1,070,777	1,095,000	1,109,570	14,570
Total MCC revenue	<u>1,124,133</u>	<u>1,263,188</u>	<u>1,292,800</u>	<u>1,252,430</u>	<u>(40,370)</u>
<b>EXPENSES</b>					
<b><u>Morehead Conference Center (MCC)</u></b>					
Benefits - MCC	31,532	18,864	25,000	12,785	12,215
Building assistants (part-time) - MCC	40,000	47,000	47,000	44,519	2,481
Building cleaning	38,840	38,840	40,000	24,442	15,558
Citizens Bank	-	-	-	10,215	(10,215)
Depreciative asset reserve / capital purchases	60,000	96,734	97,000	331,543	(234,543)
Event supplies/expense	3,000	75,000	75,000	58,766	16,234
Federal unemployment	126	126	-	-	-
FICA & Medicare - MCC	8,042	8,042	-	-	-
Garbage pick up - MCC	720	720	720	731	(11)
Jeffersontown Pool	99,900	99,900	99,900	104,411	(4,511)
Maintenance - MCC	65,000	70,000	70,000	35,687	34,313
Marketing/travel - MCC	44,604	84,389	106,745	51,603	55,142
MCC building operator & staff supervisor	39,063	43,063	44,355	45,109	(754)
MCC building services technician	24,196	803	-	-	-
MCC director	41,859	51,174	52,709	52,530	179
MCC insurance	26,000	26,282	26,000	31,069	(5,069)
Morehead Pool	102,000	102,000	102,000	90,495	11,505
Newport Pool	295,000	295,000	295,000	303,439	(8,439)
Parking lot lease	7,200	7,200	7,200	7,800	(600)
Payroll tax expenses - MCC	-	-	7,754	10,788	(3,034)
Retirement - MCC	19,636	19,636	18,617	20,107	(1,490)
Richmond Pool	85,000	85,000	85,000	86,672	(1,672)
State unemployment	615	615	-	-	-
Utilities - electric	67,500	67,500	67,500	78,321	(10,821)
Utilities - electric sign	1,500	1,500	1,500	1,473	27
Utilities - gas	10,000	10,000	10,000	5,421	4,579
Utilities - phone/internet/cable	8,000	8,000	8,000	9,337	(1,337)
Utilities: water & sewer	2,000	3,000	3,000	3,656	(656)
Vehicle maintenance/gas	2,800	2,800	2,800	3,562	(762)
Total MCC expenses	<u>1,124,133</u>	<u>1,263,188</u>	<u>1,292,800</u>	<u>1,424,481</u>	<u>131,681</u>
Profit/(loss)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (172,051)</u>	<u>\$ (172,051)</u>
<b><u>MCC Summary</u></b>					
Revenues	\$ 1,124,133	\$ 1,263,188	\$ 1,292,800	\$ 1,252,430	\$ (40,370)
Expenses	<u>1,124,133</u>	<u>1,263,188</u>	<u>1,292,800</u>	<u>1,424,481</u>	<u>(131,681)</u>
Profit/(loss)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (172,051)</u>	<u>\$ (172,051)</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, 2018**

	Original Budget	Amended Budget #1	Amended Budget #2 & Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>					
<b>Rowan County Arts Center (RCAC)</b>					
Carryover	\$ 51,000	\$ 51,000	\$ 17,100	\$ -	\$ (17,100)
Art classes	3,000	6,000	4,000	3,731	(269)
Auditorium rentals	6,500	8,500	8,500	11,910	3,410
City of Morehead grant	8,000	8,000	8,000	15,500	7,500
Fundraisers and donations	12,500	12,500	13,500	16,241	2,741
Gallery sales	750	6,000	3,500	2,240	(1,260)
Ky. Arts Council grant	1,000	2,089	-	-	-
Other rentals	950	1,500	1,500	1,808	308
Studio rentals	17,400	17,400	17,400	16,470	(930)
Reimbursement income	-	100	100	-	(100)
Total MCC revenue	101,100	113,089	73,600	67,900	(5,700)
<b>EXPENSES</b>					
<b>Rowan County Arts Center (RCAC)</b>					
Accountant expense - RCAC	1,200	2,000	1,800	1,950	(150)
Advertising	15,000	12,000	14,750	14,729	21
Art supplies	2,100	3,500	2,500	1,508	992
Building assistants (part time) - RCAC	6,000	6,000	6,000	6,000	-
Depreciative asset reserve / capital purchases	40,000	40,000	14,500	-	14,500
Director expense		8,250	-	-	-
Exhibit expense	500	600	600	525	75
Fundraising expense	3,000	3,000	3,000	3,835	(835)
Gallery sales expense	2,500	5,500	2,500	1,231	1,269
Garbage pick up - RCAC	600	350	550	290	260
Insurance - contents	1,500	1,500	1,500	354	1,146
Instructor expense	1,500	2,000	2,000	355	1,645
Janitor contract	5,000	5,000	-	-	-
Maintenance - RCAC	5,800	7,739	8,000	30,401	(22,401)
Office supplies/postage fees	2,500	2,500	2,000	1,352	648
Staff travel, dues and expense	1,500	750	1,500	57	1,443
Utilities - outdoor utility box	400	400	400	445	(45)
Utilities/rent to County	12,000	12,000	12,000	13,000	(1,000)
Total MCC expenses	101,100	113,089	73,600	76,032	2,432
Profit/(loss)	\$ -	\$ -	\$ -	\$ (8,132)	\$ (8,132)
<b>RCAC Summary</b>					
Revenues	\$ 101,100	\$ 113,089	\$ 73,600	\$ 67,900	\$ (5,700)
Expenses	101,100	113,089	73,600	76,032	(2,432)
Profit/(loss)	\$ -	\$ -	\$ -	\$ (8,132)	\$ (8,132)

# John T. Lane and Associates, LLC

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Kentucky Society of CPA's

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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, 2018, 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 27, 2018.

## **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 27, 2018

MOREHEAD RECREATION, TOURISM AND CONVENTION COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2018

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FINDINGS – FINANCIAL STATEMENTS AUDIT

PRIOR FINDINGS

None

CURRENT FINDINGS

None