

MOREHEAD UTILITY PLANT BOARD
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
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, 2018 and 2017, 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, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 13 to the financial statements, the Board adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, as amended by GASB Statement No. 85, *Omnibus 2017* effective July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 5 through 10 and the Schedule of the Board's Proportionate Share of the Net Pension and OPEB Liability and the Schedule of Pension and OPEB Contributions on pages 34 through 37 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The supplemental schedules contained on pages 38 through 47 and the schedule of expenditures of federal awards 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 January 11, 2019, 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 Dalloway Smith Goodby, PSC

Ashland, Kentucky
January 11, 2019

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, 2018 and 2017. Please read in conjunction with the accompanying basic financial statements including the notes to the financial statements. This analysis reflects recent changes in governmental accounting standards including but not limited to significant changes in accounting for certain pension obligations. Prior year amounts have been restated in relation to those changes.

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 \$663,000 (2.6 percent) to total net position of about \$25 million.
- MUPB's operating revenues increased \$1,280,000 (12.8 percent), and operating expenses increased by \$1,137,000 (10.8 percent) resulting in an operating loss of about \$354,000, which is reduced from the \$498,000 operating loss a year ago.
- The most significant changes in net position were the change in MUPB's capital assets reflecting \$2.4 million of depreciation expense net of about \$2.8 million in acquisitions of capital assets, normal repayment of long term debt in the amount of \$921,000 plus an additional \$592,000 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.

NET POSITION, continued

Table A-1

Condensed Statement of Net Position

	Business-type		
	<u>Activities</u>		
	<u>FYE 6-30-2018</u>	<u>FYE 6-30-2017</u>	<u>Increase (Decrease)</u>
Current and Other Assets	\$ 6,132,964	\$ 5,590,007	\$ 542,957
Capital Assets	37,050,749	36,644,602	406,147
Deferred Outflows	<u>1,907,611</u>	<u>880,683</u>	<u>1,026,928</u>
Total Assets and Deferred Outflows	<u>45,091,324</u>	<u>43,115,292</u>	<u>1,976,032</u>
Long-Term Liabilities	17,514,590	15,754,510	1,760,080
Current Liabilities	2,159,373	1,723,678	435,695
Deferred Inflows	<u>443,633</u>	<u>-</u>	<u>443,633</u>
Total Liabilities and Deferred Inflows	20,117,596	17,478,188	2,639,408
Net Position:			
Invested in Capital Assets, net of debt	23,926,120	24,175,846	(249,726)
Restricted	1,864,071	1,301,637	562,434
Unrestricted	<u>(816,463)</u>	<u>159,621</u>	<u>(976,084)</u>
Total Net Position	<u>\$ 24,973,728</u>	<u>\$ 25,637,104</u>	<u>\$ (663,376)</u>

Net position may serve over time as one useful indicator of a government's financial condition. MUPB's net position decreased \$663,000 (2.6%) compared to a slightly larger decrease in the prior year. The largest area of change continues to be increased deferred pension and post retirement benefit accruals. Capital assets increased about \$3 million as sewer improvement and new water plant projects are in various phases. The existing assets were reduced by about \$2.5 million in current year depreciation. There were some increases in operating expenses, but a substantial amount of those increases (49%) were related to the new post retirement benefit accrual while the other increases were more than offset by 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. In addition the post-retirement benefits are now being accrued as well. The current year net effect of the change in the net pension liability, deferred inflows and outflows is an increase in liability of about \$592,000. Decisions regarding the allocations are made by the administrators of the pension plan, not by MUPB management. Please review note disclosures 8 and 9 as well as the required supplementary information after the notes to financial statements for more detailed information.

NET POSITION, continued

Table A-2

Condensed Statement of Activities

	Business-Type		
	<u>FYE 6-30-2018</u>	<u>FYE 6-30-2017</u>	<u>Increase Decrease</u>
Revenues			
<u>Operating Revenues, pledged as security:</u>			
Gas Sales	\$ 3,449,612	\$ 3,189,887	\$ 259,725
Water Sales	3,749,313	3,343,371	405,942
Sewer Sales	3,906,455	3,334,881	571,574
Penalties	60,117	54,833	5,284
Other Operating Revenues	105,544	67,857	37,687
Total operating revenues	<u>11,271,041</u>	<u>9,990,829</u>	<u>1,280,212</u>
Non-operating revenues			
Interest Income	53,094	47,465	5,629
Grants	7,147	-	7,147
Other non-operating revenues	40,165	25,915	14,250
	<u>100,406</u>	<u>73,380</u>	<u>27,026</u>
Total revenues	<u>11,371,447</u>	<u>10,064,209</u>	<u>1,307,238</u>
Expenses			
Operating expenses:			
Gas	2,991,416	2,761,883	229,533
Water	3,239,646	2,786,233	453,413
Sewer	4,096,252	3,794,819	301,433
General and administrative costs	1,298,063	1,145,487	152,576
Total operating expenses	<u>11,625,377</u>	<u>10,488,422</u>	<u>1,136,955</u>
Non-operating revenues (expenses)			
Interest expense	(259,980)	(263,701)	3,721
Other non-operating expenses	(332,081)	(359,127)	27,046
Net non-operating revenues (expenses)	<u>(592,061)</u>	<u>(622,828)</u>	<u>30,767</u>
Income (loss) before contributions	<u>(845,991)</u>	<u>(1,047,041)</u>	<u>201,050</u>
Capital contributions	182,615	209,057	(26,442)
Change in net position	<u>(663,376)</u>	<u>(837,984)</u>	<u>174,608</u>
Net position - Beginning	<u>25,637,104</u>	<u>26,475,088</u>	<u>(837,984)</u>
Net position - Ending	<u>\$ 24,973,728</u>	<u>\$ 25,637,104</u>	<u>\$ (663,376)</u>

MUPB's operating revenue increased by 12.8 percent (\$1.3 million) and the operating expenses increased 10.8% (\$1.1 million). The increase in gas revenues and corresponding cost of gas purchased was attributable mostly to the price per unit of gas and resulted in about the same amount of margin as the prior year. Water and sewer rate increases affected the increase in those revenues reflecting an increase of \$406,000 and \$572,000 respectively in those departments. Disregarding the increases in expenses due to the accrual of the pension/post-retirement liability, the water and sewer department expenses increased about 9% (\$250,000) and 3% (\$113,000) respectively. The majority of the other non-operating expenses relate to a \$284,000 write-off of a receivable from FEMA. Since it has been many years in process and the reliance of eventually collecting these funds has reduced to a low level, the full portion of this receivable has been removed from the books. Capital grants and contributions in aid of construction were not substantially different than the prior year. Interest expense reduced very little as new construction amounts are being borrowed offsetting the amounts of debt being paid off.

BUDGET HIGHLIGHTS

For the year ended June 30, 2018, 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 continues some volatility, although not as much as in previous year and can be 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 (\$2,394,000) and interest expense (\$259,980). Also, MUPB has normally not reflected capital contributions in the budgeted amounts. The pension/post-retirement benefit accruals from the changes in accounting standards have not been included in any 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	\$ 10,403,653	\$ 11,105,380	\$ 701,727
Other Operating Revenues	68,000	165,661	97,661
Non-operating revenues	50,000	52,724	2,724
Tap Fees	150,000	182,615	32,615
Total Revenues	<u>\$ 10,671,653</u>	<u>\$ 11,506,380</u>	<u>\$ 834,727</u>

Condensed Statement of Activities - Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Operating expenses	\$ 10,479,777	\$ 11,625,377	\$ 1,145,600
Non-operating expenses	<u>259,980</u>	<u>544,379</u>	<u>284,399</u>
Total Expenditures	<u>\$ 10,739,757</u>	<u>\$ 12,169,756</u>	<u>\$ 1,429,999</u>

MUPB budgeted for a total of approximately \$10.7 million in revenues and expenses for the year ended June 30, 2018. Overall, this resulted in a variance in budgeted revenues in the amount of about \$835,000 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 \$750,000 of actual revenue more than the budgeted amount and is indicative of some changes in the pricing as well as some increases in consumption. Water revenue finished the year about 3% (\$113,000) over budget while sewer revenue was at 97% resulting in \$142,000 less than budgeted. In the analysis of budgeted expenses there is a net variance in operating expenses of about \$1,430,000 more than budgeted. Of that amount about \$315,000 is attributable directly to gas purchased and the pension/post retirement accrual is \$592,000 more than budgeted. The FEMA write off accounts for another \$284,000 of the difference. That leaves about \$240,000 (2%) and the other significant items related to those items over budget are sewer plant maintenance of the lift stations at \$205,000 and \$53,000 for chemicals and pre-treatment costs (some of which are reimbursed through the revenue).

CAPITAL ASSETS

MUPB has a total of \$91 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 \$2.8 million (3.2%) from the prior year.

Table A-4

Capital Assets at Year End Without Depreciation

		Business-Type	
	<u>FYE 6-30-2018</u>	<u>Activities</u>	<u>Change</u>
		<u>FYE 6-30-2017</u>	
Land	\$ 184,404	\$ 184,404	\$ -
Buildings	974,720	929,605	45,115
Gas, water and sewer systems	84,976,200	84,020,857	955,343
Equipment	2,953,011	2,697,600	255,411
Construction in progress	<u>1,945,429</u>	<u>353,121</u>	<u>1,592,308</u>
Total Capital Assets	<u>\$ 91,033,764</u>	<u>\$ 88,185,587</u>	<u>\$ 2,848,177</u>

MUPB budgeted about \$1.125 million in capital outlay for the year ended June 30, 2018. These items represent a more aggressive plan for system improvements in light of an aging infrastructure.

DEBT

MUPB closed the year with \$13.1 million in short and long-term debt outstanding. There were two new loans advanced during the year totaling \$1.6 million. Normal debt retirement was made during the year in the amount of about \$921,000. Scheduled retirements for the next five years average \$1.05 million per year.

Table A-5

Debt Outstanding at Year End

	<u>FYE 6-30-2018</u>	<u>Business-type Activities FYE 6-30-2016</u>	<u>Change</u>
Revenue Bonds and Notes Payable	<u>\$ 13,124,629</u>	<u>\$ 12,468,756</u>	<u>\$ 655,873</u>
Total Debt Outstanding	<u>\$ 13,124,629</u>	<u>\$ 12,468,756</u>	<u>\$ 655,873</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Management considered many factors when formulating the budget for the year ended June 30, 2019. 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. 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, however there are indications that the area could experience a bit more growth over the next several years. Long-term planning has begun for future improvement or expansion of both the water and sewer plants due to reaching near capacity limits. Planning and design work is being done currently and substantial investment is anticipated to be made within the next 4 to 5 years. Since growth is unsure, there have been adjustments made in user rates to work toward funding these costs. 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, 2018 AND 2017**

ASSETS	2018	(As Restated) 2017
Unrestricted assets:		
Cash and cash equivalents	\$ 599,960	\$ 1,092,905
Customer accounts receivable	1,598,932	1,395,893
Inventory	463,248	506,325
Prepaid expenses	247,974	15,837
Total unrestricted assets	2,910,114	3,010,960
Restricted assets:		
Cash and cash equivalents	1,588,076	606,691
Investments	1,620,853	1,667,888
Interest receivable	13,921	13,920
Other receivables	-	290,548
Total restricted assets	3,222,850	2,579,047
Total current assets	6,132,964	5,590,007
Capital assets:		
Land	184,404	184,404
Buildings and improvements	974,720	929,605
Water, gas and sewer system	84,976,200	84,020,857
Equipment	2,953,011	2,697,600
Construction in progress	1,945,429	353,121
	91,033,764	88,185,587
Less: accumulated depreciation	(53,983,015)	(51,540,985)
Net capital assets	37,050,749	36,644,602
Total assets	43,183,713	42,234,609
DEFERRED OUTFLOWS		
Deferred outflows - Pension	1,521,491	801,474
Deferred outflows - OPEB	386,120	79,209
Total deferred outflows of resources	1,907,611	880,683
Total assets and deferred outflows of resources	\$ 45,091,324	\$ 43,115,292

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF NET POSITION (CONCLUDED)
 JUNE 30, 2018 AND 2017**

LIABILITIES	<u>2018</u>	<u>(As Restated) 2017</u>
Current liabilities (payable from unrestricted assets):		
Accounts payable	\$ 475,725	\$ 196,113
Accrued payroll liabilities	317,322	219,061
Other accrued liabilities	<u>7,547</u>	<u>31,094</u>
Total current liabilities (payable from unrestricted assets)	<u>800,594</u>	<u>446,268</u>
 Current liabilities (payable from restricted assets):		
Current portion of long-term debt	1,018,578	947,464
Customer deposits	315,040	309,290
Accrued interest payable	<u>25,161</u>	<u>20,656</u>
Total current liabilities (payable from restricted assets)	<u>1,358,779</u>	<u>1,277,410</u>
 Long-term liabilities:		
Long-term debt, net of current portion	12,106,051	11,521,292
Net pension liability	4,025,846	3,148,675
Net OPEB liability	<u>1,382,693</u>	<u>1,084,543</u>
Total long-term liabilities	<u>17,514,590</u>	<u>15,754,510</u>
 Total liabilities	<u>19,673,963</u>	<u>17,478,188</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - Pension	371,240	-
Deferred inflows - OPEB	<u>72,393</u>	<u>-</u>
Total deferred inflows of resources	<u>443,633</u>	<u>-</u>
 NET POSITION		
Net investment in capital assets	23,926,120	24,175,846
Restricted	1,864,071	1,301,637
Unrestricted	<u>(816,463)</u>	<u>159,621</u>
Total net position	<u>24,973,728</u>	<u>25,637,104</u>
 Total liabilities, deferred inflows of resources, and net position	<u>\$ 45,091,324</u>	<u>\$ 43,115,292</u>

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, 2018 AND 2017**

OPERATING REVENUES	2018	2017
Gas revenue	\$ 3,449,612	\$ 3,189,887
Water revenue	3,749,313	3,343,371
Sewer revenue	3,906,455	3,334,881
Penalties	60,117	54,833
Other income	105,544	67,857
Total operating revenues	<u>11,271,041</u>	<u>9,990,829</u>
OPERATING EXPENSES		
Gas	2,991,416	2,761,883
Water	3,239,646	2,786,233
Sewer	4,096,252	3,794,819
Administrative	1,298,063	1,145,487
Total operating expenses	<u>11,625,377</u>	<u>10,488,422</u>
Operating loss	<u>(354,336)</u>	<u>(497,593)</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment income (loss)	5,412	(27,263)
Grant bad debt expense	(284,399)	(284,399)
Grant income	7,147	-
Other revenues (expenses)	40,165	25,915
Interest expense	<u>(259,980)</u>	<u>(263,701)</u>
Total non-operating revenues (expenses)	<u>(491,655)</u>	<u>(549,448)</u>
LOSS BEFORE CONTRIBUTIONS	(845,991)	(1,047,041)
CAPITAL CONTRIBUTIONS	<u>182,615</u>	<u>209,057</u>
CHANGE IN NET POSITION	(663,376)	(837,984)
NET POSITION, BEGINNING OF YEAR, as restated	<u>25,637,104</u>	<u>26,475,088</u>
NET POSITION, END OF YEAR, as restated	<u>\$ 24,973,728</u>	<u>\$ 25,637,104</u>

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, 2018 AND 2017**

**CASH FLOWS FROM OPERATING
ACTIVITIES**

	2018	2017
Cash received from customers	\$ 10,902,341	\$ 9,649,252
Other cash receipts	165,661	122,690
Cash payments for gas supply	(2,540,097)	(2,334,662)
Cash payments for water supply	(1,780,817)	(1,390,091)
Cash payments for sewer supply	(1,632,674)	(1,494,415)
Cash payments to employees for services	(1,534,825)	(1,647,721)
Cash payments for administrative costs	(937,642)	(801,133)
Net cash provided by operating activities	2,641,947	2,103,920

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

Acquisition and construction of capital assets	(2,842,677)	(835,138)
Interest paid on revenue bonds	(255,475)	(264,836)
Principal paid on long-term debt	(921,159)	(905,858)
Increase (decrease) in customer deposits	5,750	4,838
Other (expense) income	40,165	25,915
Proceeds from debt	1,577,033	241,921
Capital grants received	189,762	202,908
Net cash used for capital and related financing activities	(2,206,601)	(1,530,250)

CASH FLOWS FROM INVESTING ACTIVITIES

Call of investments	-	-
Investment income	53,094	47,465
Net cash provided by (used for) investing activities	53,094	47,465

Net increase (decrease) in cash and cash equivalents 488,440 621,135

Cash and cash equivalents, beginning of year 1,699,596 1,078,461

Cash and cash equivalents, end of year \$ 2,188,036 \$ 1,699,596

Cash and Cash Equivalents Reported As:

Unrestricted	\$ 599,960	\$ 1,092,905
Restricted	1,588,076	606,691
	\$ 2,188,036	\$ 1,699,596

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 STATEMENTS OF CASH FLOWS (CONCLUDED)
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

RECONCILIATION OF OPERATING LOSS
 TO NET CASH PROVIDED BY
 OPERATING ACTIVITIES

	2018	2017
Operating loss	\$ (354,336)	\$ (497,593)
Adjustments:		
Depreciation	2,442,030	2,582,318
Net pension adjustment	528,394	248,881
Net OPEB adjustment	63,632	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(203,039)	(218,887)
(Increase) decrease in inventories	43,077	(132,896)
(Increase) decrease in prepaid expenses	(232,137)	163,273
Increase (decrease) in accounts payable and accrued wages	354,326	(41,176)
Net cash provided by operating activities	\$ 2,641,947	\$ 2,103,920
Non-cash investing activities:		
Change in fair value of investments	\$ (47,682)	\$ (74,727)

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

**MOREHEAD UTILITY PLANT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

(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 (12). 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, 2018 and 2017 \$-0- and \$-0-, respectively, of Morehead Utility Plant Board’s bank balance of \$2,815,473 and \$2,337,501, respectively, was exposed to custodial credit risk, detailed as follows:

	2018	2017
Insured	\$ 1,052,273	\$ 939,979
Uninsured, uncollateralized	-	-
Collateral held by pledging bank’s trust department not in Morehead Utility Plant Board’s name	1,763,200	1,397,522
Total bank deposits	\$ 2,815,473	\$ 2,337,501

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, 2018 and 2017, allowance for doubtful accounts were \$196,088 and \$172,088, 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 2017, MUPB adopted the annual management budget in the amount of \$10,739,757 for the fiscal year ended June 30, 2018, detailed as follows:

Gas	\$ 2,480,033
Water	2,355,732
Sewer	2,103,255
Administrative	1,146,757
Depreciation	<u>2,394,000</u>
Total operating expense	<u>10,479,777</u>
Interest expense	<u>259,980</u>
Total non-operating expense	<u>259,980</u>
Total expenses	<u>\$ 10,739,757</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 \$2,442,030 and \$2,582,318 for the years ended June 30, 2018 and 2017, 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 \$7,147 and \$-0- in grants for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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 \$182,615 and \$209,057 for the years ended June 30, 2018 and 2017, 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, 2018, total interest cost was \$259,980, of which \$-0- was capitalized. For the year ended June 30, 2017, total interest cost was \$263,701, 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 is 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. See Note (13) for the effect of this adoption on beginning net position.

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.

See Note (13) for the effect of this adoption on the beginning net position.

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.

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.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including*

Direct Borrowings and Direct Placements (“GASB 88”), which seeks to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, while providing financial statement users with additional essential information concerning debt. In particular, GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date that the contractual obligation is established, and it clarifies which liabilities governments should include when disclosing information related to debt. Furthermore, this Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including (1) unused lines of credit; (2) assets pledged as collateral for the debt; and (3) terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. GASB 88 will be effective for the Board beginning with its year ending June 30, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (“GASB 89”), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and, thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for the Board beginning with its year ending June 30, 2021.

(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, 2018 are as follows:

<u>Description</u>	<u>Cash and Investments</u>	<u>Accrued Interest Receivable</u>	<u>Grants/ Loans Receivable</u>	<u>Total</u>
Assets restricted by grant agreements or bond ordinance:				
With paying agents	\$ 1,830,329	\$ 13,921	\$ -	\$ 1,844,250
Depreciation accounts	1,063,560	-	-	1,063,560
Construction reserves	-	-	-	-
Customer deposits	315,040	-	-	315,040
	<u>\$ 3,208,929</u>	<u>\$ 13,921</u>	<u>\$ -</u>	<u>\$ 3,222,850</u>

A schedule of restricted assets at June 30, 2017 is as follows:

<u>Description</u>	<u>Cash and Investments</u>	<u>Accrued Interest Receivable</u>	<u>Grants/ Loans Receivable</u>	<u>Total</u>
Assets restricted by grant agreements or bond ordinance:				
With paying agents	\$ 944,435	\$ 13,920	\$ -	\$ 958,355
Depreciation accounts	1,020,854	-	-	1,020,854
Construction reserves	-	-	290,548	290,548
Customer deposits	309,290	-	-	309,290
	<u>\$ 2,274,579</u>	<u>\$ 13,920</u>	<u>\$ 290,548</u>	<u>\$ 2,579,047</u>

Investments

At June 30, 2018, 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	\$ 1,084,630	\$ -	\$ 771,007	\$ 313,623	\$ -
Long-term CDs	536,223	85,893	450,330	-	-

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	-

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, 2018 and 2017 are summarized as follows:

	Rate	Original Issue	2018	2017
1966 issue	4.375-5.25%	\$ 1,715,000	\$ 15,000	\$ 15,000
Rural development series 2001A	3.25%	4,500,000	3,427,000	3,521,000
KIA wastewater treatment plant	1.00%	7,189,123	3,048,765	3,413,037
RUS wastewater treatment plant	4.13%	1,500,000	1,258,000	1,283,500
KIA water plant expansion and upgrade	1.80%	5,500,000	1,414,667	1,713,844
KIA Big Woods Project	1.00%	801,203	248,752	267,344
KIA Phase IV Project	1.00%	1,293,013	431,449	461,157
KIA WWTP	1.00%	3,000,000	1,462,043	1,551,953
KIA 801 & 158	0.75%	1,800,000	1,482,651	241,921
KIA WTP P/D	2.75%	1,297,200	336,302	-
			13,124,629	12,468,756
Less current maturities			(1,018,578)	(947,464)
Total long term debt			\$ 12,106,051	\$ 11,521,292

Morehead Utility Plant Board's bonded indebtedness and other long-term notes at June 30, 2018 and 2017 are detailed as follows:

	Balance June 30, 2016	Advances	Repayments	Balance June 30, 2017	Advances	Repayments	Balance June 30, 2018
1966 issue	\$ 15,000	\$ -	\$ -	\$ 15,000	\$ -	\$ -	\$ 15,000
2001A	3,611,000	-	(90,000)	3,521,000	-	(94,000)	3,427,000
KIA WWTP	3,773,694	-	(360,657)	3,413,037	-	(364,272)	3,048,765

RUS WWTP	1,308,000	-	(24,500)	1,283,500	-	(25,500)	1,258,000
KIA water plant expansion	2,007,708	-	(293,864)	1,713,844	-	(299,177)	1,414,667
KIA Big Woods	285,751	-	(18,407)	267,344	-	(18,592)	248,751
KIA Phase IV	490,569	-	(29,412)	461,157	-	(29,708)	431,449
KIA WWTP	1,640,971	-	(89,018)	1,551,953	-	(89,910)	1,462,043
KIA 801 & 158	-	241,921	-	241,921	1,240,730	-	1,482,651
KIA WTP P/D	-	-	-	-	336,302	-	336,303
Total	<u>\$13,132,693</u>	<u>\$ 241,921</u>	<u>\$ (905,858)</u>	<u>\$12,468,756</u>	<u>\$ 1,577,032</u>	<u>\$ (921,159)</u>	<u>\$ 13,124,629</u>

Morehead Utility Plant Board's bonded indebtedness current and long-term balances at June 30, 2018 are detailed as follows:

	<u>Current</u>	<u>Long-term</u>
1966 issue	\$ 15,000	\$ -
RD series 2001A	96,000	3,331,000
KIA WWTP	367,924	2,680,841
RUS WWTP	26,500	1,231,500
KIA water plant expansion and upgrade	304,587	1,110,080
KIA-Big Woods	18,779	229,973
KIA Phase IV	30,005	401,444
KIA- WWTP	90,811	1,371,232
KIA- 801 & 158	68,972	1,413,679
KIA WTP P/D	-	336,302
Total	<u>\$ 1,018,578</u>	<u>\$ 12,106,051</u>

The long-term debt service requirements are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	1,018,578	263,757	1,282,335
2020	1,019,692	246,770	1,266,462
2021	1,102,180	234,876	1,337,056
2022	1,115,530	219,783	1,335,313
2023	970,070	200,481	1,170,551
2024-2028	3,137,675	797,536	3,935,211
2029-2033	2,063,147	553,504	2,616,651
2034-2038	1,504,257	336,448	1,840,705
2039-2043	1,116,000	116,703	1,232,703
2044	77,500	3,488	80,988
Total	<u>\$ 13,124,629</u>	<u>\$ 2,973,346</u>	<u>\$ 16,097,975</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 Wastewater 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.

On January 1, 2018, Morehead Utility Plant Board obtained a loan from Kentucky Infrastructure Authority for the Regional Water Treatment Plant Construction. The issue amount of the loan was \$1,297,000. This loan is secured by a pledge of revenues, bears an interest rate of 2.75%, and has a maturity life of 5 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 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 \$23,926,120 and \$24,175,846 at June 30, 2018 and 2017, respectively.

MUPB had a balance of \$1,864,071 and \$1,301,637 at June 30, 2018 and 2017, respectively, for restricted net position that is required to be reserved in accordance with bond ordinances or Board designations.

MUPB had a balance of \$(816,463) and \$159,621 at June 30, 2018 and 2017, 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, 2016	Additions	Reclassifications and Disposals	Balance June 30, 2017	Additions	Reclassifications and Disposals	Balance June 30, 2018
Land	\$ 184,404	\$ -	\$ -	\$ 184,404	\$ -	\$ -	\$ 184,404
Construction in progress	201,773	258,874	(107,526)	353,121	1,697,450	(105,142)	1,945,429
Buildings	910,316	19,289	-	929,605	45,115	-	974,720
Water, gas and sewer	83,432,440	588,417	-	84,020,857	973,023	(17,680)	84,976,200
Equipment	<u>2,621,516</u>	<u>76,084</u>	<u>-</u>	<u>2,697,600</u>	<u>255,411</u>	<u>-</u>	<u>2,953,011</u>
	87,350,449	942,664	(107,526)	88,185,587	2,970,999	(122,822)	91,033,764
Accumulated depreciation	<u>(48,958,667)</u>	<u>(2,582,318)</u>	<u>-</u>	<u>(51,540,985)</u>	<u>(2,442,030)</u>	<u>-</u>	<u>(53,983,015)</u>
Total property, plant and equipment, net	<u>\$ 38,391,782</u>	<u>\$ (1,639,654)</u>	<u>\$ (107,526)</u>	<u>\$ 36,644,602</u>	<u>\$ 528,969</u>	<u>\$ (122,822)</u>	<u>\$ 37,050,749</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, 2018 and 2017 was 19.18% (14.48%-pension, 4.70%-insurance) and 18.68% (13.95%-pension, 4.73%-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 \$262,658 and \$234,035 for the years ended June 30, 2018 and 2017, respectively.

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

At June 30, 2018, the Board reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2017. An expected total pension liability as of June 30, 2017 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, 2017. At June 30 2017, the Board's proportion was 0.0688%, which was an increase of 0.00485% from its proportion measured as of June 30, 2016.

For the years ended June 30, 2018 and 2017, the Board recognized pension expense of \$528,394 and \$248,881. At June 30, 2018, 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	\$ 4,993	\$ 102,193
Changes of assumptions	742,878	-
Net difference between projected and actual earnings on pension plan investments	318,842	269,047
Changes in proportion and differences between MUPB contributions and proportionate share of contributions	192,120	-
MUPB contributions subsequent to the measurement date	262,658	-
Total	<u>\$ 1,521,491</u>	<u>\$ 371,240</u>

At June 30, 2018, MUPB reported deferred outflows of resources for MUPB contributions subsequent to the measurement date of \$262,658. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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>	
2019	\$ 401,721
2020	373,092

2021	164,474
2022	(51,694)
	<u>\$ 887,593</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2017. The financial reporting actuarial valuation as of June 30, 2017, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Measurement Date:	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	26 years
Asset Valuation Method	5-year smoothed market
Payroll Growth	2.00%
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

The following change of assumptions were adopted by the Board of Trustees and reflected in the liability measurement as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

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.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the below tables.

The target 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>
US Equity*	17.5%	5.97%
International Equity*	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate*	5.0%	7.63%

Absolute Return	10.0%	5.63%
Real return*	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.88%
Total	100.0%	6.56%

**Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan*

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 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 6.25%. 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 6.25%, 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current discount rate (6.25%)	1% Increase (7.25%)
Board's proportionate share of the net pension liability	\$ 5,077,462	\$ 4,025,846	\$ 3,146,177

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, 2018, there was a total payable to CERS of \$35,499, which includes pension and OPEB contributions.

(9) OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLANS

County Employees Retirement System Insurance Fund

Plan description: The County Employees Retirement System (“CERS”) Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. The CERS Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

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: CERS health insurance benefits are 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.

Contributions: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2018, CERS allocated 4.70% of the 19.18% 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. During the year ending June 30, 2018, the Board contributed \$85,255 to the CERS Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Implicit Subsidy: The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because 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 the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS Insurance Fund

At June 30, 2018, the Board reported a liability its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2017 was determined using standard roll-forward techniques. Board's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2017. At June 30 2017, the Board's proportion was 0.0688%.

For the year ended June 30, 2018, the Board recognized OPEB expense of \$63,632, including an implicit subsidy of \$8,676. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,840
Changes of assumptions	300,865	-
Net difference between projected and actual earnings on investments	-	65,345
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	3,208
Board contributions subsequent to the measurement date	85,255	-
	<u>\$ 386,120</u>	<u>\$ 72,393</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$85,255 resulting from Board contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019.

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 will be recognized in OPEB expense as follows:

<u>Year</u>	
2019	\$ 39,310
2020	39,310
2021	39,310
2022	39,310
2023	55,648
Thereafter	15,584
	<u>\$ 228,472</u>

Actuarial Methods and Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all 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 Percent of Pay
Remaining Amortization Period	28 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.25% at January 1, 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 1, 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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the below tables.

The target 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>
US Equity*	17.5%	5.97%
International Equity*	17.5%	7.85%
Global Bonds	4.0%	2.63%

Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate*	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real return*	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.88%
Total	<u>100.0%</u>	6.56%

**Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan*

Discount rate - The discount rate used to measure the total OPEB liability was 5.84%. 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 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the Board's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.84%, as well as what the Board's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84%) or 1-percentage-point higher (6.84%) than the current rate:

	<u>1% Decrease (4.84%)</u>	<u>Current discount rate (5.84%)</u>	<u>1% Increase (6.84%)</u>
Board's proportionate share of the net OPEB liability	\$ 1,759,400	\$ 1,382,693	\$ 1,069,214

Sensitivity of the Board's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the Board's proportionate share of the collective net OPEB liability, as well as what the Board's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current trend rate</u>	<u>1% Increase</u>
Board's proportionate share of the net OPEB liability	\$ 1,060,597	\$ 1,382,693	\$ 1,801,399

OPEB plan fiduciary net position: Detailed information about the OPEB 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 OPEB plan: At June 30, 2018, there was a total payable to CERS of \$35,499, which includes pension and OPEB contributions.

(10) 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 \$2,141,215 at June 30, 2018 for the Water Treatment Plant Project.

(11) 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.

(12) 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, 2018</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
U.S. Government Securities	\$ 1,084,630	\$ -	\$ 1,084,630	\$ -
Long-term CD's	536,223	-	536,223	-
<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	-

(13) CHANGE IN ACCOUNTING PRINCIPLE

Net position as of June 30, 2017, has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, as amended by GASB Statement No. 85, *Omnibus 2017*.

	<u>Business-Type Activities</u>
Net Position as previously reported at June 30, 2017	\$ 26,642,438
Prior period adjustment implementation of GASB 75: Net OPEB liability (measurement date as of June 30, 2016)	(1,084,543)

Deferred outflows contributions made during fiscal year 2017	<u>79,209</u>
Total prior period adjustment	<u>(1,005,334)</u>
Net position as restated, June 30, 2017	<u><u>\$ 25,637,104</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MOREHEAD, KENTUCKY
 MOREHEAD UTILITY PLANT BOARD
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE
 OF THE NET PENSION AND OPEB LIABILITY
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30, 2018**

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:				
Board's proportion of the net pension liability	0.069%	0.064%	0.062%	0.060%
Board's proportionate share of the net pension liability	\$ 4,025,846	\$ 3,148,675	\$ 2,656,693	\$ 1,936,000
Board's covered-employee payroll	\$ 1,677,667	\$ 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	239.967%	206.119%	184.741%	141.440%
Plan fiduciary net position as a percentage of the total pension liability	53.300%	55.500%	59.970%	66.800%
COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:				
Board's proportion of the net OPEB liability	0.069%			
Board's proportionate share of the net OPEB liability	\$ 1,382,693			
Board's covered-employee payroll	\$ 1,677,667			
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	82.418%			
Plan fiduciary net position as a percentage of the total OPEB liability	53.300%			

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 PENSION AND OPEB CONTRIBUTIONS
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:					
Contractually required contribution	\$ 262,658	\$ 234,035	\$ 189,728	\$ 183,353	\$ 188,070
Contributions in relation to the contractually required contribution	<u>262,658</u>	<u>234,035</u>	<u>189,728</u>	<u>183,353</u>	<u>188,070</u>
Contribution deficiency (excess)	-	-	-	-	-
Board's covered-employee payroll	\$ 1,813,935	\$ 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	14.48%	13.95%	12.42%	12.75%	13.74%
COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:					
Contractually required contribution	\$ 85,255	\$ 79,209			
Contributions in relation to the contractually required contribution	<u>85,255</u>	<u>79,209</u>			
Contribution deficiency (excess)	-	-			
Board's covered-employee payroll	\$ 1,813,935	\$ 1,677,667			
Board's proportionate share of the contractually required contributions as a percentage of its covered-employee payroll	4.70%	4.72%			

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, 2018**

(1) CHANGES OF ASSUMPTIONS

CERS - PENSION

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.

There were no changes made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

CERS - OPEB

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

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

CERS - PENSION

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2017 and 2018, determined as of July 1, 2016. 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

CERS - OPEB

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2015
Experience Study	July 1, 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	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and 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	
Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post – 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS pension or OPEB.

SUPPLEMENTAL INFORMATION

**MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
REVENUE REFUNDING AND IMPROVEMENT BONDS DATED DECEMBER 1, 1966
JUNE 30, 2018**

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1</u>	<u>Interest</u>		<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
		<u>December 1</u>	<u>June 1</u>		
2019	\$ 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, 2018

<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>
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>\$ 3,427,000</u>	<u>\$ 1,504,700</u>	<u>\$ 4,931,700</u>	
<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
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	110,000	96,428	206,428	
2024 - 2028	605,000	425,344	1,030,344	
2029 - 2033	709,000	318,744	1,027,744	
2034 - 2038	832,000	193,798	1,025,798	
2039 - 2042	766,000	50,663	816,663	
	<u>\$ 3,427,000</u>	<u>\$ 1,504,700</u>	<u>\$ 4,931,700</u>	

**MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
KENTUCKY INFRASTRUCTURE AUTHORITY
WASTEWATER REVOLVING LOAN FUND PROGRAM FUND A
JUNE 30, 2018**

<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>
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>\$ 3,048,765</u>	<u>\$ 161,448</u>	<u>\$ 3,210,213</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	382,901	18,394	401,295
2024 - 2026	1,171,889	32,224	1,204,113
	<u>\$ 3,048,765</u>	<u>\$ 161,448</u>	<u>\$ 3,210,213</u>

MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
RURAL UTILITIES SERVICE LOAN
JUNE 30, 2018

<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>
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>\$ 1,258,000</u>	<u>\$ 900,861</u>	<u>\$ 2,158,861</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	31,500	51,525	83,025
2024 - 2028	180,500	235,014	415,514
2029 - 2033	225,000	190,575	415,575
2034 - 2038	280,500	135,136	415,636
2039 - 2043	350,000	66,040	416,040
2044	77,500	3,488	80,988
	<u>\$ 1,258,000</u>	<u>\$ 900,861</u>	<u>\$ 2,158,861</u>

MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
KENTUCKY INFRASTRUCTURE AUTHORITY REVOLVING LOAN FUND PROGRAM FUND F
JUNE 30, 2018

<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>
2019	304,587	24,100	3,347	332,034	1,110,080
2020	310,094	18,592	2,582	331,268	799,986
2021	315,700	12,985	1,804	330,489	484,286
2022	321,409	7,277	1,011	329,697	162,877
2023	162,877	1,466	204	164,547	-
Total	<u>\$ 1,414,667</u>	<u>\$ 64,420</u>	<u>\$ 8,948</u>	<u>\$ 1,488,035</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	162,877	1,670	164,547
	<u>\$ 1,414,667</u>	<u>\$ 73,368</u>	<u>\$ 1,488,035</u>

**MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
KENTUCKY INFRASTRUCTURE AUTHORITY BIG WOODS PROJECT
JUNE 30, 2018**

<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>
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>\$ 248,752</u>	<u>\$ 16,492</u>	<u>\$ 3,299</u>	<u>\$ 268,543</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	19,543	2,011	21,554
2024 - 2028	100,695	6,485	107,180
2029 - 2031	52,262	945	53,207
	<u>\$ 248,752</u>	<u>\$ 19,791</u>	<u>\$ 268,543</u>

**MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
KENTUCKY INFRASTRUCTURE AUTHORITY PHASE IV
JUNE 30, 2018**

<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>
2019	30,005	4,240	848	35,093	401,444
2020	30,306	3,939	788	35,033	371,138
2021	30,610	3,635	727	34,972	340,528
2022	30,916	3,328	666	34,910	309,612
2023	31,226	3,018	604	34,848	278,386
2024	31,539	2,705	541	34,785	246,847
2025	31,856	2,389	478	34,723	214,991
2026	32,175	2,070	412	34,657	182,816
2027	32,498	1,747	349	34,594	150,318
2028	32,823	1,421	284	34,528	117,495
2029	33,152	1,092	219	34,463	84,343
2030	33,485	760	152	34,397	50,858
2031	33,820	424	85	34,329	17,038
2032	17,038	86	17	17,141	-
Total	\$ 431,449	\$ 30,854	\$ 6,170	\$ 468,473	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	31,226	3,622	34,848
2024 - 2028	160,891	12,396	173,287
2029 - 2032	117,495	2,835	120,330
	\$ 431,449	\$ 37,024	\$ 468,473

**MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
KENTUCKY INFRASTRUCTURE AUTHORITY
WASTEWATER TREATMENT PLANT PROJECT
JUNE 30, 2018**

<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>
2019	90,811	14,394	2,879	108,084	1,371,232
2020	91,722	13,484	2,697	107,903	1,279,510
2021	92,641	12,564	2,513	107,718	1,186,869
2022	93,570	11,635	2,327	107,532	1,093,299
2023	94,508	10,697	2,139	107,344	998,791
2024	95,456	9,750	1,950	107,156	903,335
2025	96,413	8,793	1,758	106,964	806,922
2026	97,379	7,826	1,565	106,770	709,543
2027	98,355	6,850	1,370	106,575	611,188
2028	99,342	5,864	1,173	106,379	511,846
2029	100,337	4,868	974	106,179	411,509
2030	101,343	3,863	772	105,978	310,166
2031	102,359	2,846	569	105,774	207,807
2032	103,385	1,820	364	105,569	104,422
2033	104,422	784	157	105,363	-
Total	<u>\$ 1,462,043</u>	<u>\$ 116,038</u>	<u>\$ 23,207</u>	<u>\$ 1,601,288</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	94,508	12,836	107,344
2024 - 2028	486,945	46,899	533,844
2029 - 2033	511,846	17,017	528,863
	<u>\$ 1,462,043</u>	<u>\$ 139,245</u>	<u>\$ 1,601,288</u>

**MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
KENTUCKY INFRASTRUCTURE AUTHORITY
KY 801 AND 158 SEWER EXTENSION PROJECT
JUNE 30, 2018**

<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>
2019	68,972	10,883	79,855	1,413,679
2020	69,491	10,364	79,855	1,344,188
2021	70,014	9,841	79,855	1,274,174
2022	70,540	9,314	79,854	1,203,634
2023	71,071	8,783	79,854	1,132,563
2024	71,606	8,248	79,854	1,060,957
2025	72,145	7,710	79,855	988,812
2026	72,688	7,167	79,855	916,124
2027	73,235	6,620	79,855	842,889
2028	73,786	6,068	79,854	769,103
2029	74,342	5,513	79,855	694,761
2030	74,901	4,954	79,855	619,860
2031	75,465	4,390	79,855	544,395
2032	76,033	3,822	79,855	468,362
2033	76,605	3,250	79,855	391,757
2034	77,181	2,673	79,854	314,576
2035	77,762	2,092	79,854	236,814
2036	78,347	1,507	79,854	158,467
2037	78,937	918	79,855	79,530
2038	79,530	324	79,854	-
Total	<u>\$ 1,482,651</u>	<u>\$ 114,441</u>	<u>\$ 1,597,092</u>	
<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2019	68,972	10,883	79,855	
2020	69,491	10,364	79,855	
2021	70,014	9,841	79,855	
2022	70,540	9,314	79,854	
2023	71,071	8,783	79,854	
2024 - 2028	363,460	35,813	399,273	
2029 - 2033	377,346	21,929	399,275	
2034 - 2037	391,757	7,514	399,271	
	<u>\$ 1,482,651</u>	<u>\$ 114,441</u>	<u>\$ 1,597,092</u>	

**MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF BOND AND INTEREST REQUIREMENTS
KENTUCKY INFRASTRUCTURE AUTHORITY
WATER TREATMENT PLANT PROJECT
JUNE 30, 2018**

<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>
2019	-	-	-	336,302
2020	-	-	-	336,302
2021	66,720	4,937	71,657	269,582
2022	64,645	7,012	71,657	204,937
2023	66,445	5,212	71,657	138,492
2024	68,295	3,361	71,656	70,197
2025	70,197	1,459	71,656	-
Total	\$ 336,302	\$ 21,981	\$ 358,283	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	-	-	-
2020	-	-	-
2021	66,720	4,937	71,657
2022	64,645	7,012	71,657
2023	66,445	5,212	71,657
2024 - 2028	138,492	4,820	143,312
	\$ 336,302	\$ 21,981	\$ 358,283

**MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
<u>Environmental Protection Agency</u>				
Passed through Kentucky Infrastructure Authority				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	F18-004	-	\$ 412,235
Capitalization Grants for Clean Water State Revolving Funds	66.458	A16-065	-	1,240,730 *
Total Environmental Protection Agency				<u>1,652,965</u>
Total Expenditures of Federal Awards				<u>\$ 1,652,965</u>

* Denotes a major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Morehead Utility Plant Board under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of operations of the Board it is not intended to and does not present the financial position, changes in net position or cash flows of the Board.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles OMB Circular A-87, *Cost Principles for State and Local Government*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE C - INDIRECT COST RATE

The Board has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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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, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated January 11, 2019.

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 Balloway Smith Godby, PSC

Ashland, Kentucky
January 11, 2019



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board Members
Morehead Utility Plant Board
Morehead, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Morehead Utility Plant Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. Morehead Utility Plant Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Morehead Utility Plant Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Morehead Utility Plant Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Morehead Utility Plant Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Morehead Utility Plant Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Morehead Utility Plant Board's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
January 11, 2019

**MOREHEAD UTILITY PLANT BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

(A) SUMMARY OF AUDIT RESULTS

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency (ies) identified? _____ yes x none reported

Type of audit auditor's report issued on Compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes x no

The Board had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2018:

Capitalization Grants for Clean Water State Revolving Funds (66.458)

Dollar threshold to distinguish between Type A and Type B Programs:

 \$ 750,000

The District qualified as a low risk auditee _____ yes x no

(B) FINDINGS RELATED TO FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS

None noted in the current year.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no findings in the current year.