

**MOREHEAD UTILITY PLANT BOARD**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**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, 2016 and 2015, 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, 2016 and 2015, 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 1 to the financial statements, the Board adopted GASB Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. 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 4 through 9 and the schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions on pages 28 through 30 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 schedules contained on pages 29 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules contained on pages 31 through 38 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, 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 Goolsby, PSC*

Ashland, Kentucky  
November 21, 2016

**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, 2016 and 2015. This analysis reflects GASB 72 accounting standards restatements of prior year end balances. Please read in conjunction with the accompanying basic financial statements and review references to GASB 72.

***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 \$610,000 (2.2 percent) to total net position of about \$27.5 million.
- MUPB's operating revenues decreased \$673,000 (6.7 percent), and operating expenses decreased by \$396,000 (3.8 percent) resulting in an operating loss of about \$519,000, which is increased from the \$243,000 operating loss a year ago.
- The two most significant changes in net position was the decrease in MUPB's capital assets reflecting \$2.6 million of depreciation expense with about \$876,000 in acquisitions of capital assets combined with normal repayment of long term debt in the amount of \$890,000.

**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 Activities		Increase
	FYE 6-30-2016	FYE 6-30-2015	(Decrease)
Current and Other Assets	\$ 5,133,340	\$ 5,022,945	\$ 110,395
Capital Assets	38,391,782	40,112,606	(1,720,824)
Deferred Outflows	558,373	254,106	304,267
Total Assets and Deferred Outflows	<u>44,083,495</u>	<u>45,389,657</u>	<u>(1,306,162)</u>
Long-Term Liabilities	14,868,528	15,053,692	(185,164)
Current Liabilities	1,734,545	1,815,865	(81,320)
Deferred Inflows	-	216,000	(216,000)
Total Liabilities and Deferred Inflows	<u>16,603,073</u>	<u>17,085,557</u>	<u>(482,484)</u>
Net Position:			
Invested in Capital Assets, net of debt	25,259,089	26,087,712	(828,623)
Restricted	1,592,831	1,496,796	96,035
Unrestricted	<u>628,502</u>	<u>505,943</u>	<u>122,559</u>
Total Net Position	<u>\$ 27,480,422</u>	<u>\$ 28,090,451</u>	<u>\$ (610,029)</u>

Net position may serve over time as one useful indicator of a government's financial condition. MUPB's net position decreased \$610,000 (2.2%) compared to a much smaller decrease in the prior year. In some years, substantial grant funds have been received to fund the increase in capital assets on the balance sheet offsetting the large amounts of depreciation. In the current year, only \$47,000 of capital grants were received compared to \$345,000 in the prior year. This change accounts for a substantial amount of the larger decrease in net position compared to the prior year. There were some increases in operating expenses, but a substantial amount of those increases were offset by continued increases in water and sewer revenue over the prior year. MUPB implemented GASB Statement 72 this year and continues to deal with the effects of the new pension standards GASB 68. The most significant impact of these standards is GASB 68. With the new reporting change MUPB is allocated its proportionate share of the County Employees Retirement System's (CERS) net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. The current year net effect of the change in the net pension liability, deferred inflows and outflows is an increase in liability of about \$200,000. Decisions regarding the allocations are made by the administrators of the pension plan, not by MUPB management. Please review Notes 8 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

	<b>Business-Type Activities</b>		<u>Increase Decrease</u>
	<u>FYE 6-30-2016</u>	<u>FYE 6-30-2015</u>	
<b>Revenues</b>			
<u>Operating Revenues, pledged as security:</u>			
Gas Sales	\$ 2,602,028	\$ 3,776,922	\$(1,174,894)
Water Sales	3,249,145	3,039,758	209,387
Sewer Sales	3,311,173	3,115,291	195,882
Penalties	52,501	63,380	(10,879)
Other Operating Revenues	188,274	80,332	107,942
<b>Total operating revenues</b>	<u>9,403,121</u>	<u>10,075,683</u>	<u>(672,562)</u>
Non-operating revenues			
Interest Income	54,774	57,370	(2,596)
Grants	47,027	344,640	(297,613)
	<u>101,801</u>	<u>402,010</u>	<u>(300,209)</u>
<b>Total revenues</b>	<u>9,504,922</u>	<u>10,477,693</u>	<u>(972,771)</u>
<b>Expenses</b>			
Operating expenses:			
Gas	2,108,036	3,188,266	(1,080,230)
Water	3,050,976	2,699,830	351,146
Sewer	3,678,772	3,559,583	119,189
General and administrative costs	1,084,653	871,056	213,597
<b>Total operating expenses</b>	<u>9,922,437</u>	<u>10,318,735</u>	<u>(396,298)</u>
Non-operating revenues (expenses)			
Interest expense	(277,752)	(366,424)	88,672
Other non-operating expenses	(937)	10,374	(11,311)
<b>Net non-operating revenues (expenses)</b>	<u>(278,689)</u>	<u>(356,050)</u>	<u>77,361</u>
<b>Income (loss) before contributions</b>	<u>(696,204)</u>	<u>(197,092)</u>	<u>(499,112)</u>
Capital contributions	86,175	121,950	(35,775)
<b>Change in net position</b>	<u>(610,029)</u>	<u>(75,142)</u>	<u>(534,887)</u>
<b>Net position - Beginning</b>	<u>28,090,451</u>	<u>28,165,593</u>	<u>(75,142)</u>
<b>Net position - Ending</b>	<u>\$ 27,480,422</u>	<u>\$ 28,090,451</u>	<u>\$ (610,029)</u>

MUPB's operating revenue decreased by 6.7 percent (\$673,000) and the operating expenses decreased 3.8% (\$396,000). The significant decrease in gas revenues and corresponding cost of gas purchased was attributable to both a reduction in the price per unit cost and a milder winter compared to the prior year. When comparing the associated decrease in gas purchased with that revenue, the gas system overall contributed about \$95,000 less to the operating income than a year ago. There was one month

of effect of the two year water and sewer rate increases and in addition consumption increased in both of the water and sewer departments showing an increase in revenues of \$209,000 and \$196,000 respectively in those departments. There were some substantial increases in the water department expenses resulting in a net decrease of that department's contribution to income from \$340,000 to \$198,000. Even though the operating expenses for the sewer still exceed the revenue, the change in the operating revenue and expense resulted in an improvement of about \$77,000. Capital grants and contributions in aid of construction decreased by \$298,000 and had very little effect toward the change in net position. Interest expense was reduced by about \$89,000 reflecting a sharp decrease due to certain bond prepayments during the prior fiscal year.

## BUDGET HIGHLIGHTS

For the year ended June 30, 2016, the MUPB budget was not amended during the year. Historically, the budget process is very rigorous and department supervisors are charged with creating a realistic workable budget. Instead of amending the budget throughout the year, the budget has continually been used as a tool to evaluate the ability of each department to make yearly plans and to identify those instances where the results have deviated from that plan. Gas sales/purchases and capital outlay/debt service/interest expense are areas that are often confusing or misunderstood in regard to the budget. Gas purchased for resale has continued to be volatile and it is difficult to accurately budget nearly a year in advance. The accompanying revenue is determined based on the current cost; however the budgeted margin between gas sales and cost of gas purchased has always been used to evaluate the budgeted amounts for consistency. MUPB uses a budget format at the request of the City that reconciles beginning cash carryover to ending cash carryover. Bond sinking fund, depreciation reserve payments, and capital outlay are budgeted instead of depreciation and interest expense. These amounts are then factored into the budget as depreciation (\$2,558,400) and interest expense (\$288,288). Also, MUPB has normally not reflected capital contributions in the budgeted amounts. Those differences will be explained in the narrative at the end of the worksheet. A comparison of the final budget to actual amounts is presented in Table A-3 that follows.

**Table A-3**

### Condensed Statement of Activities - Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Charges for Services	\$ 9,969,000	\$ 9,162,346	\$ (806,654)
Other Operating Revenues	95,800	240,775	144,975
Non-operating revenues	26,000	101,801	75,801
Tap Fees	<u>126,000</u>	<u>86,175</u>	<u>(39,825)</u>
Total Revenues	<u>\$ 10,216,800</u>	<u>\$ 9,591,097</u>	<u>\$ (625,703)</u>

### Condensed Statement of Activities - Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Operating expenses	\$ 10,743,800	\$ 9,922,437	\$ (821,363)
Non-operating expenses	<u>288,288</u>	<u>278,689</u>	<u>(9,599)</u>
Total Expenditures	<u>\$ 11,032,088</u>	<u>\$ 10,201,126</u>	<u>\$ (830,962)</u>

MUPB budgeted for a total of \$10.2 million in revenues and \$11 million in expenses for the year ended June 30, 2016. Overall, this resulted in a variance in budgeted revenues in the amount of about \$626,000 less 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 \$1,278,000 of actual revenue less than the budgeted amount. Water revenue finished the year over the budgeted amount at 108% of budget while sewer revenue was at 107% of budget resulting in \$250,000 and \$221,000 of revenue over budget respectively. In the analysis of budgeted expenses there is a net variance in operating expenses of about \$821,000 less spent than budgeted. Of that amount about \$1,340,000 is attributable directly to gas purchased less than budgeted and is related to the above decreased gas revenues. The relationship of the decreased gas revenue compared to the cost reflects the lower overall price of gas compared to the prior year as well as decreased consumption due to rather mild winter compared to the previous two years. Other than this gas purchased variance the other significant changes in operating expenses relate to additional personnel costs due to water and sewer plant operators as well as higher than anticipated costs related to the sewer plant maintenance of the plant and lift stations.

## CAPITAL ASSETS

MUPB has a total of \$87.3 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 \$.85 million (1.0%) from the prior year.

**Table A-4**

### Capital Assets at Year End Without Depreciation

	<b>Business-Type Activities</b>		
	<u>FYE 6-30-2016</u>	<u>FYE 6-30-2015</u>	<u>Change</u>
Land	\$ 184,404	\$ 184,404	\$ -
Buildings	910,316	910,316	-
Gas, water and sewer systems	83,432,440	82,800,554	631,886
Equipment	2,621,515	2,608,212	13,303
Construction in progress	201,773	160	201,613
Total Capital Assets	<u>\$ 87,350,448</u>	<u>\$ 86,503,646</u>	<u>\$ 846,802</u>

MUPB budgeted about \$980,000 in capital outlay for the year ended June 30, 2016. These items represent normal planned expenditures for utility system improvements.

## DEBT

MUPB closed the year with \$13.1 million in short and long-term debt outstanding. There were no new loan funds advanced during the year. Normal debt retirement was made during the year in the amount

of about \$892,000. Scheduled retirements for the next five years average \$938,000 per year.

**Table A-5**

**Debt Outstanding at Year End**

	<b>Business-type Activities</b>		
	<u>FYE 6-30-2016</u>	<u>FYE 6-30-2015</u>	<u>Change</u>
Revenue Bonds and Notes Payable	\$ 13,132,693	\$ 14,024,894	\$ (892,201)
Total Debt Outstanding	<u>\$ 13,132,693</u>	<u>\$ 14,024,894</u>	<u>\$ (892,201)</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Management considered many factors when formulating the budget for the year ended June 30, 2017. Since the budget is prepared several months before the end of the current fiscal year, there can always be considerable changes between budgets and results. There is still an expectation that substantial FEMA reimbursements from the 2010 flood will be received, however due to the uncertainty of the timeline for those reimbursements, budgets have been prepared without anticipating that cash flow in the next year. The current global economic conditions including the volatility of energy costs, which give an indirect impact to natural gas prices, oil, coal and all energy sources have been reflected in the affected accounts. Management uses various tools to the best of its abilities to lessen the severity of winter price spikes in natural gas for the benefit of the consumer. The price of gas affects the revenue but does not directly impact the margins of MUPB due to the rate structure as there is a fixed margin per unit of gas sold. Energy costs are anticipated to incur increases due to the sensitive nature of the industry and continuing environmental costs incurred by the producing companies, however natural gas prices are expected to stay relatively stable due to recent developments in northeast US sources of gas. The expectation is for water and sewer consumption to remain relatively stable with some slight increase. Since there is little growth for the water and sewer systems, some type of flexible rate structure may need to be implemented in order to maintain the costs of the current system. Long-term planning has begun for future improvement or expansion of both the water and sewer plants due to reaching near capacity limits. These investments when incurred will be substantial and unless there is substantial growth relative to when these investments are made, there will be a significant impact on the user rates. There has been some recovery of commercial utility usage due to decreased natural gas costs and economic conditions in certain industries, however it is unknown if these increases are sustainable and economic conditions will most likely continue to affect the commercial and residential consumption.

**CONTACTING MUPB'S FINANCIAL MANAGEMENT**

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

**CITY OF MOREHEAD, KENTUCKY  
 MOREHEAD UTILITY PLANT BOARD  
 STATEMENTS OF NET POSITION  
 JUNE 30, 2016 AND 2015**

<b>ASSETS</b>	2016	2015
Unrestricted assets:		
Cash and cash equivalents	\$ 563,863	\$ 410,689
Customer accounts receivable	1,177,006	1,118,041
Inventory	373,429	379,273
Prepaid expenses	179,110	178,430
Total unrestricted assets	2,293,408	2,086,433
Restricted assets:		
Cash and cash equivalents	514,598	181,050
Investments	1,742,615	1,917,887
Interest receivable	13,921	16,364
Other receivables	568,798	607,562
Total restricted assets	2,839,932	2,722,863
Total current assets	5,133,340	4,809,296
Capital assets:		
Land	184,404	184,404
Buildings and improvements	910,316	910,316
Water, gas and sewer system	83,432,440	82,800,554
Equipment	2,621,516	2,608,212
Construction in progress	201,773	160
	87,350,449	86,503,646
Less: accumulated depreciation	(48,958,667)	(46,391,040)
Net capital assets	38,391,782	40,112,606
Total assets	43,525,122	44,921,902
<b>DEFERRED OUTFLOWS</b>		
Deferred outflows - pension	558,373	254,106
Total deferred outflows of resources	558,373	254,106
Total assets and deferred outflows of resources	\$ 44,083,495	\$ 45,176,008

**CITY OF MOREHEAD, KENTUCKY  
 MOREHEAD UTILITY PLANT BOARD  
 STATEMENTS OF NET POSITION (CONCLUDED)  
 JUNE 30, 2016 AND 2015**

<b>LIABILITIES</b>	2016	2015
Current liabilities (payable from unrestricted assets):		
Accounts payable	\$ 348,780	\$ 453,784
Accrued payroll liabilities	109,780	106,170
Other accrued liabilities	28,884	29,844
Total current liabilities (payable from unrestricted assets)	487,444	589,798
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	920,858	907,202
Customer deposits	304,452	295,960
Accrued interest payable	21,791	22,905
Total current liabilities (payable from restricted assets)	1,247,101	1,226,067
Long-term liabilities:		
Long-term debt, net of current portion	12,211,835	13,117,692
Net pension liability	2,656,693	1,936,000
Total long-term liabilities	14,868,528	15,053,692
Total liabilities	16,603,073	16,869,557
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	-	216,000
Total deferred inflows of resources	-	216,000
<b>NET POSITION</b>		
Net investment in capital assets	25,259,089	26,087,712
Restricted	1,592,831	1,496,796
Unrestricted	628,502	505,943
Total net position	27,480,422	28,090,451
Total liabilities, deferred inflows of resources, and net position	\$ 44,083,495	\$ 45,176,008

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, 2016 AND 2015**

	2016	2015
<b>OPERATING REVENUES</b>		
Gas revenue	\$ 2,602,028	\$ 3,776,922
Water revenue	3,249,145	3,039,758
Sewer revenue	3,311,173	3,115,291
Penalties	52,501	63,380
Other income	188,274	80,332
Total operating revenues	9,403,121	10,075,683
<b>OPERATING EXPENSES</b>		
Gas	2,108,036	3,188,266
Water	3,050,976	2,699,830
Sewer	3,678,772	3,559,583
Administrative	1,084,653	871,056
Total operating expenses	9,922,437	10,318,735
Operating loss	(519,316)	(243,052)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	54,774	57,370
Grants	47,027	344,640
Other revenues (expenses)	(937)	10,374
Interest expense	(277,752)	(366,424)
Total non-operating revenues (expenses)	(176,888)	45,960
<b>INCOME BEFORE CONTRIBUTIONS</b>	(696,204)	(197,092)
<b>CAPITAL CONTRIBUTIONS</b>	86,175	121,950
<b>CHANGE IN NET POSITION</b>	(610,029)	(75,142)
<b>NET POSITION, BEGINNING OF YEAR, as restated</b>	28,090,451	28,165,593
<b>NET POSITION, END OF YEAR</b>	\$ 27,480,422	\$ 28,090,451

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, 2016 AND 2015**

**CASH FLOWS FROM OPERATING**

ACTIVITIES	2016	2015
Cash received from customers	\$ 9,103,381	\$ 9,949,401
Other cash receipts	240,775	143,712
Cash payments for gas supply	(1,604,427)	(3,019,540)
Cash payments for water supply	(1,683,452)	(1,347,851)
Cash payments for sewer supply	(1,546,543)	(1,384,899)
Cash payments to employees for services	(1,603,490)	(1,497,526)
Cash payments for administrative costs	(813,662)	(602,495)
Net cash provided by operating activities	2,092,582	2,240,802

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

Acquisition and construction of capital assets	(876,262)	(598,498)
Interest paid on revenue bonds	(278,866)	(358,471)
Principal paid on long-term debt	(892,201)	(2,168,302)
Increase (decrease) in customer deposits	8,492	9,388
Other expense	(52,268)	3,886
Capital grants received	171,966	525,106
Net cash used for capital and related financing activities	(1,919,139)	(2,586,891)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Call of investments	250,000	100,000
Interest income	63,279	58,793
Net cash provided by (used for) investing activities	313,279	158,793

Net increase (decrease) in cash and cash equivalents	486,722	(187,296)
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Cash and cash equivalents, beginning of year	591,739	779,035
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Cash and cash equivalents, end of year	\$ 1,078,461	\$ 591,739
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**Cash and Cash Equivalents Reported As:**

Unrestricted	\$ 563,863	\$ 410,689
Restricted	514,598	181,050
	\$ 1,078,461	\$ 591,739

**CITY OF MOREHEAD, KENTUCKY  
 MOREHEAD UTILITY PLANT BOARD  
 STATEMENTS OF CASH FLOWS (CONCLUDED)  
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

RECONCILIATION OF OPERATING LOSS  
 TO NET CASH PROVIDED BY  
 OPERATING ACTIVITIES

	<u>2016</u>	<u>2015</u>
Operating loss	\$ (519,316)	\$ (243,052)
Adjustments:		
Depreciation	2,567,627	2,571,264
Net pension expense	200,426	(99,106)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(58,965)	17,430
(Increase) decrease in inventories	5,844	44,324
(Increase) decrease in prepaid expenses	(680)	(166,624)
Increase (decrease) in accounts payable and accrued wages	<u>(102,354)</u>	<u>116,566</u>
Net cash provided by operating activities	<u>\$ 2,092,582</u>	<u>\$ 2,240,802</u>
Non-cash investing activities:		
Change in fair value of investments	<u>\$ 80,790</u>	<u>\$ 40,458</u>

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

**MOREHEAD UTILITY PLANT BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Accounting**

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

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

**Investments**

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

**Custodial Credit Risks - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, Morehead Utility Plant Board’s deposits may not be returned to it. Morehead Utility Plant Board does not have a deposit policy for custodial credit risk. As of June 30, 2016 and 2015 \$ -0- and \$-0-, respectively, of Morehead Utility Plant Board’s bank balance of \$1,806,209 and \$2,098,182, respectively, was exposed to custodial credit risk, detailed as follows:

	2016	2015
Insured	\$ 921,883	\$ 1,083,741
Uninsured, uncollateralized	-	-
Collateral held by pledging bank’s trust department not in Morehead Utility Plant Board’s name	884,326	1,014,441
Total bank deposits	\$ 1,806,209	\$ 2,098,182

**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, 2016 and 2015, allowance for doubtful accounts were \$143,288 and \$119,410, 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 2015, MUPB adopted the annual management budget in the amount of \$11,032,088 for the fiscal year ended June 30, 2016, detailed as follows:

Gas	\$ 3,342,110
Water	2,041,326
Sewer	1,786,181
Administrative	1,015,783
Depreciation	2,558,400
Total operating expense	<u>10,743,800</u>
Interest expense	<u>288,288</u>
Total non-operating expense	<u>288,288</u>
Total expenses	<u>\$ 11,032,088</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 \$2,567,627 and \$2,571,264 for the years ended June 30, 2016 and 2015, respectively.

### **Capital and Operating Grants**

Grants that are restricted to the purchase of property, plant and equipment are recorded as other income, per GASB 33. MUPB received \$-0- and \$344,640 in grants for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, 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 \$86,175 and \$121,950 for the years ended June 30, 2016 and 2015, 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, 2016, total interest cost was \$277,752, of which \$-0- was capitalized. For the year ended June 30, 2015, total interest cost was \$366,424, of which \$-0- was capitalized.

### **Restricted and Unrestricted Resources**

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

### **Recent Accounting Pronouncements**

In February 2015, Governmental Accounting Standards Board (GASB) issued GASB Statement No. 72, *Fair Value Measurement and Application*. This statement changes the definition of fair value and adds new disclosure requirements. Under the new Statement, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between buyers and sellers at the measurement date. GASB 72 is effective for periods beginning after June 15, 2015. See Notes 11 and 12.

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

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB 76”). GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and reduces the GAAP hierarchy to two categories of authoritative GAAP. The adoption of this standard did not have a material effect on the Board’s financial statements.

In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 82, *Pension Issues*, which addresses issues that arose during the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This pronouncement is effective for years ending June 30, 2017.

**(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, 2016 are as follows:

Description	Cash and Investments	Accrued Interest Receivable	Grants/Loans Receivable	Total
Assets restricted by grant agreements or bond ordinance:				
With paying agents	\$ 971,039	\$ 13,921	\$ -	\$ 984,960
Depreciation accounts	981,722	-	-	981,722
Construction reserves	-	-	568,798	568,798
Customer deposits	304,452	-	-	304,452
	<u>\$ 2,257,213</u>	<u>\$ 13,921</u>	<u>\$ 568,798</u>	<u>\$ 2,839,932</u>

A schedule of restricted assets at June 30, 2015 are as follows:

Description	Cash and Investments	Accrued Interest Receivable	Grants Receivable	Total
Assets restricted by grant agreements or bond ordinance:				
With paying agents	\$ 855,455	\$ 16,364	\$ -	\$ 871,819
Depreciation accounts	947,522	-	-	947,522
Construction reserves	-	-	607,562	607,562
Customer deposits	295,960	-	-	295,960
	<u>\$ 2,098,937</u>	<u>\$ 16,364</u>	<u>\$ 607,562</u>	<u>\$ 2,722,863</u>

**Investments**

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

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

At June 30, 2015, 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	\$ 1,358,401	\$ -	\$ -	\$ 1,034,893	\$ 323,508
Long-term CDs	559,486	-	307,063	252,423	-

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, 2016 and 2015 are summarized as follows:

	Rate	Original Issue	2016	2015
1966 issue	4.375-5.25%	\$ 1,715,000	\$ 15,000	\$ 15,000
Rural development series 2001A	3.25%	4,500,000	3,611,000	3,699,000
KIA wasterwater treatment plant	1.00%	7,189,123	3,773,694	4,130,770
RUS wasterwater treatment plant	4.13%	1,500,000	1,308,000	1,331,000
KIA water plant expansion and upgrade	1.80%	5,500,000	2,007,708	2,296,353
KIA Big Woods Project	1.00%	801,203	285,751	303,976
KIA Phase IV Project	1.00%	1,293,013	490,569	519,690
KIA WWTP	1.00%	3,000,000	1,640,971	1,729,105
			13,132,693	14,024,894
Less current maturities			(920,858)	(907,202)
Total long term debt			\$ 12,211,835	\$ 13,117,692

Morehead Utility Plant Board's bonded indebtedness and other long-term notes at June 30, 2016 and 2015 are detailed as follows:

	Balance June 30, 2014			Balance June 30, 2015			Balance June 30, 2016
	Balance	Advances	Repayments	Balance	Advances	Repayments	Balance
1966 issue	\$ 20,000	\$ -	\$ (5,000)	\$ 15,000	\$ -	\$ -	\$ 15,000
KIA loan (RCSD)	186,830	-	(186,830)	-	-	-	-
RD - series 1998A	910,000	-	(910,000)	-	-	-	-
RD - series 2001A	3,784,000	-	(85,000)	3,699,000	-	(88,000)	3,611,000
KIA WWTP	4,484,303	-	(353,532)	4,130,771	-	(357,077)	3,773,694
RUS WWTP	1,353,000	-	(22,000)	1,331,000	-	(23,000)	1,308,000
KIA water plant expansion	2,579,871	-	(283,518)	2,296,353	-	(288,645)	2,007,708
KIA Big Woods	322,020	-	(18,044)	303,976	-	(18,225)	285,751
KIA Phase IV	548,521	-	(28,832)	519,689	-	(29,120)	490,569
KIA WWTP	2,004,651	-	(275,546)	1,729,105	-	(88,134)	1,640,971
Total	\$16,193,196	\$ -	\$(2,168,302)	\$14,024,894	\$ -	\$(892,201)	\$13,132,693

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

	<u>Current</u>	<u>Long-term</u>
1966 issue	\$ 15,000	\$ -
RD series 2001A	90,000	3,521,000
KIA WWTP	360,656	3,413,038
RUS WWTP	24,500	1,283,500
KIA water plant expansion and upgrade	293,864	1,713,843
KIA-Big Woods	18,408	267,343
KIA Phase IV	29,412	461,158
KIA- WWTP	89,018	1,551,953
Total	<u>\$ 920,858</u>	<u>\$ 12,211,835</u>

The long-term debt service requirements are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 920,858	\$ 283,915	\$ 1,204,773
2018	921,159	268,062	1,189,221
2019	934,606	252,387	1,186,993
2020	950,201	236,406	1,186,607
2021	965,446	220,098	1,185,544
2022-2026	3,883,918	879,890	4,763,808
2027-2031	1,632,657	611,454	2,244,111
2032-2036	1,261,847	408,199	1,670,046
2037-2041	1,236,500	204,184	1,440,684
2042-2044	425,501	23,819	449,320
Total	<u>\$ 13,132,693</u>	<u>\$ 3,388,414</u>	<u>\$ 16,521,107</u>

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

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

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

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

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

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

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

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

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

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

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

## **(5) Net Position**

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

The balance of net investment in capital assets represents funds that have been used to acquire pump stations, storage facilities, meter stations, etc., constructed and operated by Morehead Utility Plant Board; net of outstanding debt. The balance was \$25,259,089 and 26,087,712 at June 30, 2016 and 2015, respectively.

MUPB had a balance of \$1,592,831 and \$1,496,796 at June 30, 2016 and 2015, respectively, for restricted net position that is required to be reserved in accordance with bond ordinances or Board designations.

MUPB had a balance of \$628,502 and \$505,943 at June 30, 2016 and 2015, 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, 2014	Additions	Reclassifications and Disposals	Balance June 30, 2015	Additions	Reclassifications and Disposals	Balance June 30, 2016
Land	\$ 184,404	\$ -	\$ -	\$ 184,404	\$ -	\$ -	\$ 184,404
Buildings	874,676	35,640	-	910,316	-	-	910,316
Water, gas and sewer	82,289,110	511,444	-	82,800,554	631,886	-	83,432,440
Construction in progress	160	-	-	160	201,613	-	201,773
Equipment	2,556,797	51,415	-	2,608,212	42,764	(29,460)	2,621,516
	85,905,147	598,499	-	86,503,646	876,263	(29,460)	87,350,449
Accumulated depreciation	(43,819,775)	(2,571,265)	-	(46,391,040)	(2,567,627)	-	(48,958,667)
Total property, plant and equip- ment, net	\$ 42,085,372	\$ (1,972,766)	\$ -	\$ 40,112,606	\$ (1,691,364)	\$ (29,460)	\$ 38,391,782

**(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 year ended June 30, 2016 was 17.06% (12.42%-pension, 4.64%-insurance) of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. Contributions to the pension plan from the Board were \$189,728 for the year ended June 30, 2016.

CERS - Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years - 0%, 4-9 years - 25%, 10-14 years - 50%, 15-19 years - 75% and 20 or more years - 100%.

As of June 30, 2015, the date of the latest actuarial valuation, the plan had 82,969 active plan participants.

Contribution requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed in above. The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2015 was as follows:

	<u>000's omitted</u>
Total medical benefit obligation	\$ 2,907,827
Net position available for benefits at actuarial value	<u>(1,997,456)</u>
Unfunded medical benefit obligation	<u>\$ 910,371</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2016, the Board reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2015 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, 2015. At June 30 2015, the Board's proportion was 0.06179%.

For the year ended June 30, 2016, the Board recognized pension expense of \$200,426. At June 30, 2016, 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	\$ 22,078	\$ -
Changes of assumptions	267,899	-
Net difference between projected and actual earnings on pension plan investments	23,815	-
Changes in proportion and differences between MUPB contributions and proportionate share of contributions	54,853	-
MUPB contributions subsequent to the measurement date	<u>189,728</u>	<u>-</u>
Total	<u>\$ 558,373</u>	<u>\$ -</u>

At June 30, 2016, MUPB reported deferred outflows of resources for MUPB contributions subsequent to the measurement date of \$189,728. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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>	
2017	\$ 129,350
2018	129,350
2019	62,034
2020	47,912
2021	-
	<u>\$ 368,645</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 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

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2015:

- 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.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

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

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

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2015 is based on the June 30, 2015 actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate: The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$ 3,392,000	\$ 2,656,693	\$ 2,027,000

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

Payables to the pension plan: At June 30, 2016 and 2015, MUPB had payables to CERS in the amount of \$27,596 and \$30,854, respectively, for June's covered payroll with contributions required to be paid in July.

## **(9) Commitments and Contingencies**

### Purchased Gas Contract

Due to the volatile nature of gas pricing and contracts with gas suppliers, MUPB has entered into an

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

### Water Purchase Contract

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

### **(10) Risk Management**

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

### **(11) Fair Value Measurements**

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

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

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

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

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

traded in active markets.

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

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

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

<u>June 30, 2016</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
U.S. Government Securities	\$ 1,170,531	\$ -	\$ 1,170,531	\$ -
Long-term CD's	572,084	-	572,084	-
<u>June 30, 2015</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
U.S. Government Securities	\$ 1,358,402	\$ -	\$ 1,358,402	\$ -
Long-term CD's	559,485	-	559,485	-

**(12) Change in Accounting Principle**

Net position as of June 30, 2014, has been restated as follows for the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*.

Net Position as previously reported at June 30, 2014	\$ 28,131,624
Prior period adjustment for implementation of GASB 72:	
Unrealized gain on investments	<u>33,969</u>
Net position as restated, June 30, 2014	<u>\$ 28,165,593</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MOREHEAD, KENTUCKY**  
**MOREHEAD UTILITY PLANT BOARD**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**COUNTY EMPLOYEES RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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

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

**CITY OF MOREHEAD, KENTUCKY**  
**MOREHEAD UTILITY PLANT BOARD**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONTRIBUTIONS**  
**COUNTY EMPLOYEES RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 189,728	\$ 183,353	\$ 188,070
Contributions in relation to the contractually required contribution	<u>189,728</u>	<u>183,353</u>	<u>188,070</u>
Contribution deficiency (excess)	-	-	-
Board's covered-employee payroll	\$ 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	12.42%	12.75%	13.74%

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

**CITY OF MOREHEAD, KENTUCKY  
MOREHEAD UTILITY PLANT BOARD  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

**(1) (1) CHANGES OF ASSUMPTIONS**

CERS

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

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

CERS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2016 and 2015, determined as of July 1, 2013. 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	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

**(3) CHANGES OF BENEFITS**

There were no changes of benefit terms for CERS.

**SUPPLEMENTAL INFORMATION**

**Morehead Utility Plant Board**  
**Schedule of Bond and Interest Requirements**  
**Revenue Refunding and Improvement Bonds Dated December 1, 1966**  
**June 30, 2016**

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<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u> <u>Due</u> <u>Dec. 1</u>	<u>Interest</u>		<u>Total</u> <u>Requirements</u>	<u>Principal</u> <u>Outstanding at</u> <u>End of Year</u>
		<u>December 1</u>	<u>June 1</u>		
2017	\$ 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, 2016**

<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>
2017	\$ 90,000	\$ 115,895	\$ 205,895	\$ 3,521,000
2018	94,000	112,905	206,905	3,427,000
2019	96,000	109,818	205,818	3,331,000
2020	100,000	106,633	206,633	3,231,000
2021	103,000	103,334	206,334	3,128,000
2022	106,000	99,938	205,938	3,022,000
2023	110,000	96,428	206,428	2,912,000
2024	113,000	92,804	205,804	2,799,000
2025	117,000	89,066	206,066	2,682,000
2026	121,000	85,199	206,199	2,561,000
2027	125,000	81,201	206,201	2,436,000
2028	129,000	77,074	206,074	2,307,000
2029	133,000	72,816	205,816	2,174,000
2030	137,000	68,429	205,429	2,037,000
2031	142,000	63,895	205,895	1,895,000
2032	146,000	59,215	205,215	1,749,000
2033	151,000	54,389	205,389	1,598,000
2034	156,000	49,400	205,400	1,442,000
2035	161,000	44,249	205,249	1,281,000
2036	166,000	38,935	204,935	1,115,000
2037	172,000	33,443	205,443	943,000
2038	177,000	27,771	204,771	766,000
2039	183,000	21,921	204,921	583,000
2040	189,000	15,876	204,876	394,000
2041	195,000	9,636	204,636	199,000
2042	199,000	3,230	202,230	-
<b>Total</b>	<b>\$ 3,611,000</b>	<b>\$ 1,733,500</b>	<b>\$ 5,344,500</b>	
<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2017	\$ 90,000	\$ 115,895	\$ 205,895	
2018	94,000	112,905	206,905	
2019	96,000	109,818	205,818	
2020	100,000	106,633	206,633	
2021	103,000	103,334	206,334	
2022 - 2026	567,000	463,435	1,030,435	
2027 - 2031	666,000	363,415	1,029,415	
2032 - 2036	780,000	246,188	1,026,188	
2037 - 2041	916,000	108,647	1,024,647	
2042 - 2042	199,000	3,230	202,230	
	<b>\$ 3,611,000</b>	<b>\$ 1,733,500</b>	<b>\$ 5,344,500</b>	

**Morehead Utility Plant Board**  
**Schedule of Bond and Interest Requirements**  
**Kentucky Infrastructure Authority Wastewater Revolving Loan Fund Program Fund A**  
**June 30, 2016**

<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>
2017	\$ 360,656	\$ 40,417	\$ 401,073	\$ 3,413,038
2018	364,272	36,838	401,110	3,048,766
2019	367,924	33,222	401,146	2,680,842
2020	371,612	29,570	401,182	2,309,230
2021	375,338	25,882	401,220	1,933,892
2022	379,101	22,156	401,257	1,554,791
2023	382,901	18,394	401,295	1,171,890
2024	386,740	14,593	401,333	785,150
2025	390,617	10,754	401,371	394,533
2026	394,533	6,877	401,410	-
<b>Total</b>	<b><u>\$ 3,773,694</u></b>	<b><u>\$ 238,703</u></b>	<b><u>\$ 4,012,397</u></b>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 360,656	\$ 40,417	\$ 401,073
2018	364,272	36,838	401,110
2019	367,924	33,222	401,146
2020	371,612	29,570	401,182
2021	375,338	25,882	401,220
2022 - 2026	1,933,892	72,774	2,006,666
	<b><u>\$ 3,773,694</u></b>	<b><u>\$ 238,703</u></b>	<b><u>\$ 4,012,397</u></b>

**Morehead Utility Plant Board**  
**Schedule of Bond and Interest Requirements**  
**Rural Utilities Service Loan**  
**June 30, 2016**

<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>
2017	\$ 24,500	\$ 58,860	\$ 83,360	\$ 1,283,500
2018	25,500	57,758	83,258	1,258,000
2019	26,500	56,610	83,110	1,231,500
2020	27,500	55,418	82,918	1,204,000
2021	29,000	54,180	83,180	1,175,000
2022	30,000	52,875	82,875	1,145,000
2023	31,500	51,525	83,025	1,113,500
2024	33,000	50,108	83,108	1,080,500
2025	34,500	48,623	83,123	1,046,000
2026	36,000	47,070	83,070	1,010,000
2027	37,500	45,450	82,950	972,500
2028	39,500	43,763	83,263	933,000
2029	41,000	41,985	82,985	892,000
2030	43,000	40,140	83,140	849,000
2031	45,000	38,205	83,205	804,000
2032	47,000	36,180	83,180	757,000
2033	49,000	34,065	83,065	708,000
2034	51,500	31,860	83,360	656,500
2035	53,500	29,543	83,043	603,000
2036	56,000	27,135	83,135	547,000
2037	58,500	24,615	83,115	488,500
2038	61,000	21,983	82,983	427,500
2039	64,000	19,238	83,238	363,500
2040	67,000	16,358	83,358	296,500
2041	70,000	13,343	83,343	226,500
2042	73,000	10,193	83,193	153,500
2043	76,000	6,908	82,908	77,500
2044	77,500	3,488	80,988	-
Total	<u>\$ 1,308,000</u>	<u>\$ 1,017,479</u>	<u>\$ 2,325,479</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 24,500	\$ 58,860	\$ 83,360
2018	25,500	57,758	83,258
2019	26,500	56,610	83,110
2020	27,500	55,418	82,918
2021	29,000	54,180	83,180
2022 - 2026	165,000	250,201	415,201
2027 - 2031	206,000	209,543	415,543
2032 - 2036	257,000	158,783	415,783
2037 - 2041	320,500	95,537	416,037
2042 - 2044	226,500	20,589	247,089
	<u>\$ 1,308,000</u>	<u>\$ 1,017,479</u>	<u>\$ 2,325,479</u>

**Morehead Utility Plant Board**  
**Schedule of Bond and Interest Requirements**  
**Kentucky Infrastructure Authority Revolving Loan Fund Program Fund F**  
**June 30, 2016**

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1 &amp; June 1</u>	<u>Interest Due Dec. 1 &amp; June 1</u>	<u>Servicing Fee</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2017	\$ 293,864	\$ 34,822	\$ 4,836	\$ 333,522	\$ 1,713,844
2018	299,178	29,509	4,099	332,786	1,414,666
2019	304,587	24,100	3,347	332,034	1,110,079
2020	310,094	18,592	2,582	331,268	799,985
2021	315,700	12,985	1,804	330,489	484,285
2022	321,409	7,277	1,011	329,697	162,876
2023	162,876	1,466	204	164,546	-
Total	<u>\$ 2,007,708</u>	<u>\$ 128,751</u>	<u>\$ 17,883</u>	<u>\$ 2,154,342</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 293,864	\$ 39,658	\$ 333,522
2018	299,178	33,608	332,786
2019	304,587	27,447	332,034
2020	310,094	21,174	331,268
2021	315,700	14,789	330,489
2022-2023	484,285	9,958	494,243
	<u>\$ 2,007,708</u>	<u>\$ 146,634</u>	<u>\$ 2,154,342</u>

**Morehead Utility Plant Board**  
**Schedule of Bond and Interest Requirements**  
**Kentucky Infrastructure Authority Big Woods Project**  
**June 30, 2016**

Fiscal Year Ending June 30	Principal Due Dec. 1 & June 1	Interest Due Dec. 1 & June 1	Servicing Fee	Total Requirements	Principal Outstanding at End of Year
2017	\$ 18,408	\$ 2,812	\$ 562	\$ 21,782	\$ 267,343
2018	18,592	2,627	525	21,744	248,751
2019	18,779	2,441	488	21,708	229,972
2020	18,967	2,252	451	21,670	211,005
2021	19,157	2,062	412	21,631	191,848
2022	19,349	1,870	374	21,593	172,499
2023	19,543	1,676	335	21,554	152,956
2024	19,739	1,480	296	21,515	133,217
2025	19,937	1,283	257	21,477	113,280
2026	20,137	1,083	217	21,437	93,143
2027	20,339	881	176	21,396	72,804
2028	20,543	677	135	21,355	52,261
2029	20,748	471	94	21,313	31,513
2030	20,956	263	53	21,272	10,557
2031	10,557	53	11	10,621	-
Total	<u>\$ 285,751</u>	<u>\$ 21,931</u>	<u>\$ 4,386</u>	<u>\$ 312,068</u>	

Fiscal Year Ending	Principal	Interest	Total
2017	\$ 18,408	\$ 3,374	\$ 21,782
2018	18,592	3,152	21,744
2019	18,779	2,929	21,708
2020	18,967	2,703	21,670
2021	19,157	2,474	21,631
2022 - 2026	98,705	8,871	107,576
2027 - 2031	93,143	2,814	95,957
	<u>\$ 285,751</u>	<u>\$ 26,317</u>	<u>\$ 312,068</u>

**Morehead Utility Plant Board**  
**Schedule of Bond and Interest Requirements**  
**Kentucky Infrastructure Authority Phase IV**  
**June 30, 2016**

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1 &amp; June 1</u>	<u>Interest Due Dec. 1 &amp; June 1</u>	<u>Servicing Fee</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2017	\$ 29,412	\$ 4,832	\$ 966	\$ 35,210	\$ 461,157
2018	29,707	4,538	908	35,153	431,450
2019	30,005	4,240	848	35,093	401,445
2020	30,306	3,939	788	35,033	371,139
2021	30,610	3,635	727	34,972	340,529
2022	30,916	3,328	666	34,910	309,613
2023	31,226	3,018	604	34,848	278,387
2024	31,539	2,705	541	34,785	246,848
2025	31,856	2,389	478	34,723	214,992
2026	32,175	2,070	412	34,657	182,817
2027	32,498	1,747	349	34,594	150,319
2028	32,823	1,421	284	34,528	117,496
2029	33,152	1,092	219	34,463	84,344
2030	33,485	760	152	34,397	50,859
2031	33,820	424	85	34,329	17,039
2032	17,039	86	17	17,142	-
Total	<u>\$ 490,569</u>	<u>\$ 40,224</u>	<u>\$ 8,044</u>	<u>\$ 538,837</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 29,412	\$ 5,798	\$ 35,210
2018	29,707	5,446	35,153
2019	30,005	5,088	35,093
2020	30,306	4,727	35,033
2021	30,610	4,362	34,972
2022 - 2026	157,712	16,211	173,923
2027 - 2031	165,778	6,533	172,311
2032	17,039	103	17,142
	<u>\$ 490,569</u>	<u>\$ 48,268</u>	<u>\$ 538,837</u>

**Morehead Utility Plant Board**  
**Schedule of Bond and Interest Requirements**  
**Kentucky Infrastructure Authority Waste Water Treatment Plant Project**  
**June 30, 2016**

<u>Fiscal Year Ending June 30</u>	<u>Principal Due Dec. 1 &amp; June 1</u>	<u>Interest Due Dec. 1 &amp; June 1</u>	<u>Servicing Fee</u>	<u>Total Requirements</u>	<u>Principal Outstanding at End of Year</u>
2017	\$ 89,018	\$ 16,188	\$ 3,238	\$ 108,444	\$ 1,551,953
2018	89,910	15,296	3,059	108,265	1,462,043
2019	90,811	14,394	2,879	108,084	1,371,232
2020	91,722	13,484	2,697	107,903	1,279,510
2021	92,641	12,564	2,513	107,718	1,186,869
2022	93,570	11,635	2,327	107,532	1,093,299
2023	94,508	10,697	2,139	107,344	998,791
2024	95,456	9,750	1,950	107,156	903,335
2025	96,413	8,793	1,758	106,964	806,922
2026	97,379	7,826	1,565	106,770	709,543
2027	98,355	6,850	1,370	106,575	611,188
2028	99,342	5,864	1,173	106,379	511,846
2029	100,337	4,868	974	106,179	411,509
2030	101,343	3,863	772	105,978	310,166
2031	102,359	2,846	569	105,774	207,807
2032	103,385	1,820	364	105,569	104,422
2033	104,422	784	157	105,363	-
Total	<u>\$ 1,640,971</u>	<u>\$ 147,522</u>	<u>\$ 29,504</u>	<u>\$ 1,817,997</u>	

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 89,018	\$ 19,426	\$ 108,444
2018	89,910	18,355	108,265
2019	90,811	17,273	108,084
2020	91,722	16,181	107,903
2021	92,641	15,077	107,718
2022 - 2026	477,326	58,440	535,766
2027 - 2031	501,736	29,149	530,885
2032 - 2033	207,807	3,125	210,932
	<u>\$ 1,640,971</u>	<u>\$ 177,026</u>	<u>\$ 1,817,997</u>



**K**elley **G**alloway  
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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, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 21, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

## Purpose of this Report

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

*Kelley Galloway Smith Joolsby, PSC*

Ashland, Kentucky  
November 21, 2016