

CITY OF MURRAY, KENTUCKY

AUDITED FINANCIAL STATEMENTS

June 30, 2015

**CITY OF MURRAY, KENTUCKY
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INTRODUCTORY SECTION

CITY OF MURRAY, KENTUCKY

June 30, 2015

CITY COUNCIL

Jeremy Bell
Robert Billington
Johnny Bohannon
Linda Cherry
Danny Hudspeth
Dan Miller
Jason Pittman
Pat Scott
F.T. Butch Seargent
Jane Shoemaker
Greg Taylor
Burton Young

ADMINISTRATIVE STAFF

Dr. Jack Rose, Mayor
Alan Lanier, Director of Finance

FINANCIAL SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

112 Robertson Road
Murray, KY 42071

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Independent Auditor's Report

Honorable Mayor Jack Rose and
Members of the City Council
City of Murray, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Murray, Kentucky as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Murray, Kentucky, as of 4, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the City of Murray adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. 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 management's discussion and analysis on pages 4–8, the budgetary comparison information on page 42, and the schedules related to pensions on pages 39–41 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Murray's basic financial statements. The introductory section, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016, on our consideration of the City of Murray, Kentucky'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 City of Murray's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Murray, Kentucky
January 25, 2016



City of Murray



MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Murray's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the City's financial statements, which begin on page 9. The implementation of Governmental Accounting Standards Board (GASB) Statements no. 68 and 71, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, during 2015 causes some financial information reported in the MD&A for 2015 and 2014 not to be comparable.

FINANCIAL HIGHLIGHTS

- The net assets of all City activities are \$44,040,142. This represents a decrease of \$8,686,000 (16.5%) over the prior year. This decrease is spread among the governmental and business-type activities. A breakout shows 35% (\$3,082,000) in business-type activities and the remaining 65% (\$5,604,000) in governmental activities.
- The primary driver of the decrease in net assets is the recognition of the Net Pension Liability (\$12,468,000). This liability is recognized currently based on new accounting guidance under GASB 68. This liability, its purpose, and the assumptions behind it are discussed in greater detail at Note 3 – Detail Notes, part G. Retirement Plan (on pages 31-35). The change in Net Assets excluding the newly recorded Pension Liability would be an increase of \$3,782,000.
- Total City activities indicate current assets of \$17,240,000 and current and non-current liabilities of \$27,121,000. This includes the newly recognized Pension Liability described above. While this implies a negative liquidity position of (\$9,881,000), the Pension Liability is in a similar funding status to prior year and the City's financial health is not deemed to have deteriorated from prior year. The recordation of the Pension Liability under GASB 68 is considered a transparent demonstration of a previously existing, off-book liability which has existed for many years.
- The recognition of the Net Pension Liability for GASB 68 also results in the recognition of two new line items in the Statement of Net Position. The Deferred Outflows of Resources totaling \$1,897,000 serves as an increase in the Net Position, similarly to an Asset. The Deferred Inflows of Resources totaling \$1,041,000 serves as a decrease in the Net Position, similarly to a Liability. The net impact of these new line items is an increase in Government-Wide Net Position of \$856,000.
- For all governmental funds, total funding sources of \$14,495,000 exceed total expenditures of \$12,080,000 by \$2,415,000. The reported unrestricted fund balance for governmental funds is minus \$4,395,000, a decrease of \$6,203,000 from prior year. This is again driven primarily by the recognition of the Pension Liability under GASB 68.
- For all four business-type activities (Water and Sewer, Natural Gas, Sanitation, and Stormwater) total revenues of \$18,539,000 exceed total expenses of \$17,246,000 by \$1,293,000. The reported unrestricted fund balance is \$2,203,000, a decrease from prior year of 2,873,000. Similar to the governmental funds, the decrease in Unrestricted Fund Balance is due in large part to the recognition of the Pension Fund Liability in fiscal year 2015.

USING THIS ANNUAL AUDIT

This annual financial report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on page 9 and 10-11) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements begin on

page 12. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts as a trustee or agent for the benefit of those outside of the government.

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 5. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets (what the citizens own) and liabilities (what the citizens owe) as one way to measure the City's financial position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's capital assets (roads, buildings, water and sewer lines) to assess the overall health of the City. In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities.

- Governmental activities - Most of the City's basic services are reported here, including the Police, Fire, Street, Planning and Administration departments. Property taxes, insurance premium taxes, vehicle stickers, franchise fees business licenses, alcohol sales fees, and state and federal grants finance most of these activities.
- Business-type activities - The City charges fees to customers to help cover all or most of the cost of certain services it provides. The City's Water and Sewer, Natural Gas, Sanitation, and Stormwater Utility departments are reported here.

I would like to again point out that the changes to the Net Position of the City of Murray during this fiscal year are driven in large part by the newly recorded Pension Liability. The performance of the City on the whole has not deteriorated or suffered during the fiscal year 2015, but the clarity and transparency around the reporting of all actual liabilities is improved through the adoption of the new accounting standard GASB 68. The City is under no current obligation to fund this liability, we continue to operate under the jurisdiction of our state pension system to progressively remediate the unfunded liability, and the City of Murray has not absorbed any new liability around this accounting adjustment. In subsequent reporting years, this liability will be tracked and compared to monitor the changes in the funding position of our pension, similar to any other obligation owed by the City.

THE CITY AS A WHOLE

Our analysis below focuses on the changes in net position (Table 1) and net position (Table 2) of the City's governmental and business-type activities.

Table 1
Changes in Net Position
(in Thousands)

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 2,876	\$ 2,462	\$ 18,436	\$ 19,136	\$ 21,312	\$ 21,598
Grants	4,041	1,212	22	250	4,063	1,462
General revenues:						
Property taxes	3,922	3,738	-	-	3,922	3,738
Franchise taxes	181	181	-	-	181	181
Payments in lieu of taxes	61	85	-	-	61	85
Bank shares	143	155	-	-	143	155
Insurance tax	2,041	1,903	-	-	2,041	1,903
School tax	42	41	-	-	42	41
Base court revenue	-	-	-	-	-	-
Telephone line charges	146	153	-	-	146	153
Transient room tax	-	-	-	-	-	-
Intergovernmental	455	418	-	-	455	418
Interest and investment earnings	21	34	65	100	86	134
Gain (loss) on sale of assets	(22)	(1)	(17)	5	(39)	4
Miscellaneous	273	367	348	331	621	698
Transfers	315	315	(315)	(315)	-	-
Total revenues	<u>14,495</u>	<u>11,063</u>	<u>18,539</u>	<u>19,507</u>	<u>33,034</u>	<u>30,570</u>
Program Expenses						
General government	1,920	1,596	-	-	1,920	1,596
Community development	1,865	666	-	-	1,865	666
Police department	3,580	3,219	-	-	3,580	3,219
Fire department	2,966	2,973	-	-	2,966	2,973
Animal control	-	-	-	-	-	-
Street department	1,159	1,089	-	-	1,159	1,089
Tourism	281	272	-	-	281	272
Municipal aid	123	254	-	-	123	254
E-911	76	108	-	-	76	108
Alcohol beverage control	68	93	-	-	68	93
Drug court awards	3	5	-	-	3	5
Loss on sale of investments	-	-	-	-	-	-
Unallocated interest expense	39	29	-	-	39	29
Water and sewer	-	-	5,939	5,957	5,939	5,957
Natural gas	-	-	8,735	10,151	8,735	10,151
Sanitation	-	-	2,392	2,367	2,392	2,367
Stormwater	-	-	180	199	180	199
Total expenses	<u>12,080</u>	<u>10,304</u>	<u>17,246</u>	<u>18,674</u>	<u>29,326</u>	<u>28,978</u>
Increase (decrease) in net position	<u>\$ 2,415</u>	<u>\$ 759</u>	<u>\$ 1,293</u>	<u>\$ 833</u>	<u>\$ 3,708</u>	<u>\$ 1,592</u>

Table 2
Net Position
(in Thousands)

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 6,940	\$ 4,782	\$ 10,301	\$ 10,135	\$ 17,241	\$ 14,917
Capital assets	12,396	9,857	40,669	39,439	53,065	49,296
Total assets	<u>19,336</u>	<u>14,639</u>	<u>50,970</u>	<u>49,574</u>	<u>70,306</u>	<u>64,213</u>
Total Deferred Outflows of Resources	1,341	-	556	-	1,897	-
Long-term debt outstanding	3,867	1,659	5,764	5,355	9,631	7,014
Other liabilities	10,680	1,899	6,811	2,574	17,491	4,473
Total liabilities	<u>14,547</u>	<u>3,558</u>	<u>12,575</u>	<u>7,929</u>	<u>27,122</u>	<u>11,487</u>
Total Deferred Inflows of Resources	654	-	387	-	1,041	-
Net position						
Net investment in capital assets	8,529	8,198	34,905	34,085	43,434	42,283
Restricted	1,343	1,075	1,456	2,484	2,799	3,559
Unrestricted	<u>(4,395)</u>	<u>1,808</u>	<u>2,203</u>	<u>5,076</u>	<u>(2,192)</u>	<u>6,884</u>
Total net position	<u>\$ 5,477</u>	<u>\$ 11,081</u>	<u>\$ 38,564</u>	<u>\$ 41,645</u>	<u>\$ 44,041</u>	<u>\$ 52,726</u>

Governmental Activities

- The largest single receipt category, property taxes, has increased \$184,000 (4.9%) to \$3,922,000.
- The largest total departmental expenditure (net of operating grants and contributions) is the Police Department - \$3,348,000. A year-over-year comparison shows an increase of \$291,000 or 9.5%.
- Grant receipts for the year are \$4,041,000 - a 233.4% increase from the prior year.
- Interest income of \$21,000 accounts for only 0.15% of total General Fund receipts.

Business-type Activities

Murray Water and Sewer System

- The Water and Sewer System's total operating revenues are \$6,522,000. When compared to the total operating expenses of \$5,839,000, an operating income of \$684,000 exists.
- The change in net position is an increase of \$508,000 when non-operating expenses of \$70,000 and transfers to other funds of \$105,000 are considered.

Murray Natural Gas System

- The Gas System's total operating revenues are \$9,538,000. When compared to the total operating expenses of \$8,724,000, operating income of \$814,000 exists.
- The change in net position is an increase of \$735,000 when non-operating revenues of \$26,000 and transfers to other funds of \$105,000 are considered.

Sanitation Department

- The Sanitation Department's total operating revenues are \$2,492,000. When compared to the total operating expenses of \$2,392,000, an operating income of \$100,000 exists.
- The change in net position is a decrease of \$2,000 when non-operating revenues of \$3,000 and transfers to other funds of \$105,000 are considered.

Stormwater Utility

- The Stormwater Utility's total operating revenues are \$231,000. When compared to the total operating expenses of \$180,000, operating income of \$51,000 exists.
- The change in net position is an increase of \$52,000 when non-operating revenues of \$1,000 is considered.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

- In Governmental Activities, property, plant and equipment increased by a total cost of \$3,238,298. This consists of \$2,231,763 of Construction in Process, \$244,015 in Machinery and Equipment, and \$762,520 in Infrastructure. Net of depreciation, the total Net Capital Assets - Governmental increased by \$2,538,996.
- In the Business-type Activities, property, plant and equipment increased by a total cost of \$3,418,159. This consists of \$21,632 in Land, \$420,559 Machinery and Equipment, \$172,499 in Drainage Improvement, and \$2,803,469 in Utility Plants. Net of depreciation, the total Net Capital Assets - Business Type increased by \$1,229,679.

Debt

- \$2,500,000 of new debt in General Governmental Activities has been issued during the fiscal year for the construction of the North Fire Station (Station 3). As of June 30, 2015, the total capital debt outstanding for General Governmental Activities is \$3,867,465, which is an increase of \$1,827,055 over prior year.
- \$551,128 of new debt in Business-type Activities has been issued during the fiscal year for engineering and other services related to the Waste Water Treatment Plant improvements. As of June 30, 2015, the total debt outstanding for Business-Type Activities is \$5,764,129, which is an increase of \$409,532 over prior year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Preliminary data for the City in fiscal year 2016 mirrors the economic uncertainty presently experienced at the State and Federal levels. Rising personnel costs - most notably in the form of healthcare and retirement expenditures - continue to compete with spending in operational areas and on capital projects. As always, the City is constantly monitoring many factors present in today's economy and adjusting funding and expenditure measures accordingly. The City's current revenue sources and enacted rate increases appear to be adequate to provide the quality of service expected for our customers while maintaining a stable tax environment. We will continue to optimize internal and external efficiencies wherever possible in our effort to provide the greatest benefit to our stakeholders at the lowest possible cost.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability of the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Director's office at 104 North 5th Street, Suite A, Murray, Kentucky, 42071.

Respectfully submitted,



Luke Crawford
Director of Finance

BASIC FINANCIAL STATEMENTS

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash in banks and on hand	\$ 2,882,979	\$ 6,534,826	\$ 9,417,805
Receivables (net of allowance for uncollectible)			
Taxes	643,063	-	643,063
Customer	-	900,063	900,063
Grants	1,735,305	-	1,735,305
Other	424,381	6,299	430,680
Internal balances	(152,866)	152,866	-
Due from fiduciary fund	15,125	-	15,125
Materials and supplies, at average cost	49,434	557,968	607,402
Noncurrent assets			
Net capital assets	12,396,355	40,668,957	53,065,312
Restricted assets	1,343,018	2,148,535	3,491,553
Total assets	<u>19,336,794</u>	<u>50,969,514</u>	<u>70,306,308</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	<u>1,341,134</u>	<u>556,390</u>	<u>1,897,524</u>
Liabilities			
Accounts payable	1,563,243	1,043,650	2,606,893
Accrued salaries and wages	186,043	119,460	305,503
Other accrued liabilities	299,296	68,294	367,590
Customer deposits	-	584,135	584,135
Accrued interest payable	-	184,696	184,696
Noncurrent liabilities			
Net pension liability	8,133,846 F2	4,333,860	12,467,706
Due within one year	645,117	423,555	1,068,672
Due in more than one year:			
Accrued compensated absences	165,130	201,765	366,895
Notes payable	3,554,212	5,172,946	8,727,158
Bonds payable	-	443,000	443,000
Total non-current liabilities	<u>12,498,305</u>	<u>10,575,126</u>	<u>23,073,431</u>
Total liabilities	<u>14,546,887</u>	<u>12,575,361</u>	<u>27,122,248</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	<u>654,429</u>	<u>387,013</u>	<u>1,041,442</u>
Net Position			
Net investment in capital assets	8,528,890	34,904,828	43,433,718
Restricted for			
CDBG housing	57,224	-	57,224
Special purposes	419,141	-	419,141
Employee benefits	866,653	-	866,653
Debt service	-	700,949	700,949
Renewal and replacement	-	425,000	425,000
Landfill postclosure reserve	-	329,350	329,350
Unrestricted	(4,395,296) F1	2,203,403	(2,191,893)
Total net position	<u>\$ 5,476,612</u>	<u>\$ 38,563,530</u>	<u>\$ 44,040,142</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>(Expense)</u>
					<u>Total</u>
Functions/Programs					
Governmental activities					
General government	\$ 1,919,841	\$ 1,528,237	\$ -	\$ 1,836,498	\$ 1,444,894
Community development	1,865,549	-	-	1,817,125	(48,424)
Police department	3,579,984	-	231,624	-	(3,348,360)
Fire department	2,966,604	-	155,554	-	(2,811,050)
Street department	1,159,440	-	-	-	(1,159,440)
Tourism	280,680	264,769	-	-	(15,911)
Municipal aid	122,818	-	-	-	(122,818)
E-911	75,721	-	-	-	(75,721)
Alcohol beverage control	68,293	1,082,753	-	-	1,014,460
Drug court awards	2,935	-	-	-	(2,935)
Unallocated interest expense	38,722	-	-	-	(38,722)
Total governmental activities	<u>12,080,587</u>	<u>2,875,759</u>	<u>387,178</u>	<u>3,653,623</u>	<u>(5,164,027)</u>
Business-type activities					
Water and sewer	5,938,661	6,242,463	-	22,191	325,993
Natural gas	8,734,973	9,491,078	-	-	756,105
Sanitation	2,391,847	2,471,918	-	-	80,071
Stormwater	180,025	230,362	-	-	50,337
Total business-type activities	<u>17,245,506</u>	<u>18,435,821</u>	<u>-</u>	<u>22,191</u>	<u>1,212,506</u>
Total primary government	<u>\$ 29,326,093</u>	<u>\$ 21,311,580</u>	<u>\$ 387,178</u>	<u>\$ 3,675,814</u>	<u>(3,951,521)</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in Net Position			
Net revenue (expense)	\$ (5,164,027)	\$ 1,212,506	\$ (3,951,521)
General Revenues			
Taxes			
Property taxes	3,922,106	-	3,922,106
Franchise taxes	181,138	-	181,138
Payments in lieu of taxes	61,278	-	61,278
Bank shares	142,993	-	142,993
Insurance tax	2,041,339	-	2,041,339
School tax	42,032	-	42,032
Telephone line charges	146,459	-	146,459
Intergovernmental	454,861	-	454,861
Interest and investments earnings	21,103	64,744	85,847
Loss on disposal of assets	(21,794)	(17,042)	(38,836)
Miscellaneous	273,064	347,565	620,629
Transfers	315,000	(315,000)	-
Total general revenues and transfers	7,579,579	80,267	7,659,846
Change in net position	2,415,552	1,292,773	3,708,325
Net position - beginning of period	11,080,960	41,644,754	52,725,714
Prior period adjustments/restatements	(8,019,900)	(4,373,997)	(12,393,897)
Net position - beginning, as restated	3,061,060	37,270,757	40,331,817
Net position - end of period	\$ 5,476,612	\$ 38,563,530	\$ 44,040,142

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

**CITY OF MURRAY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

	General Fund	Total Nonmajor Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,732,554	\$ 150,425	\$ 2,882,979
Receivables			
Taxes (net of allowance for uncollectibles of \$211,187)	643,063	-	643,063
Grants	1,735,305	-	1,735,305
Due from other funds	282,782	90,123	372,905
Other	73,022	326,690	399,712
Restricted assets	144,433	331,932	476,365
Total assets	\$ 5,611,159	\$ 899,170	\$ 6,510,329
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,164,033	\$ 67,591	\$ 1,231,624
Due to other funds	102,700	273,666	376,366
Accrued salaries payable	177,433	3,357	180,790
Total liabilities	1,444,166	344,614	1,788,780
Fund Balances			
Restricted	144,433	554,556	698,989
Unassigned	4,022,560	-	4,022,560
Total fund balances	4,166,993	554,556	4,721,549
Total liabilities and fund balances	\$ 5,611,159	\$ 899,170	\$ 6,510,329

Reconciliation of total governmental fund balances
to net position of governmental activities

Total governmental fund balances		\$ 4,721,549
Amounts reported in governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		12,363,996
Internal service funds are used by management to charge the costs of certain activities, such as insurance and transportation costs, to individual funds. The assets and liabilities of certain internal funds are included in governmental activities in the statement of net assets.		5,392
Long-term liabilities, including bonds payable and accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.		(11,614,325)
Net position of governmental activities		\$ 5,476,612

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENT FUNDS
For the Year Ended June 30, 2015

	<u>General Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 3,922,106	\$ -	\$ 3,922,106
Insurance tax	2,041,339	-	2,041,339
Vehicle license tax	973,367	-	973,367
Transient room tax	-	264,769	264,769
Franchise taxes	181,138	-	181,138
Occupational business licenses	318,961	-	318,961
Payments in lieu of taxes	61,278	-	61,278
Bank shares	142,993	-	142,993
License and permits	193,270	-	193,270
Fines and fees	7,725	-	7,725
Telephone line charges	-	146,459	146,459
Intergovernmental revenue	30,187	505,131	535,318
Interest	16,378	2,076	18,454
Alcoholic beverage fees	-	1,082,753	1,082,753
Miscellaneous income	194,302	60,215	254,517
Grant funds received	3,982,425	-	3,982,425
Total revenues	<u>12,065,469</u>	<u>2,061,403</u>	<u>14,126,872</u>
Expenditures			
Current			
General government	3,839,775	-	3,839,775
Police department	3,744,719	-	3,744,719
Fire department	3,112,938	-	3,112,938
Street department	736,123	172,818	908,941
Planning and zoning	295,969	-	295,969
Tourism commission	-	249,728	249,728
E-911	-	75,721	75,721
Freedom fest	-	43,173	43,173
Drug court awards	-	2,935	2,935
Alcoholic beverage control	-	68,293	68,293
Capital outlay	2,961,850	265,951	3,227,801
Debt service			
Principal	259,155	32,548	291,703
Interest	38,270	452	38,722
Total expenditures	<u>14,988,799</u>	<u>911,619</u>	<u>15,900,418</u>
Revenues over (under) expenditures	<u>(2,923,330)</u>	<u>1,149,784</u>	<u>(1,773,546)</u>
Other Financing Sources (Uses)			
Proceeds from debt	2,500,000	-	2,500,000
Transfers from other funds	1,510,000	-	1,510,000
Transfers to other funds	-	(1,125,000)	(1,125,000)
Total other financing sources (uses)	<u>4,010,000</u>	<u>(1,125,000)</u>	<u>2,885,000</u>
Net change in fund balance	<u>1,086,670</u>	<u>24,784</u>	<u>1,111,454</u>
Fund balance, beginning of year	3,045,727	430,044	3,475,771
Prior period adjustments	34,596	99,728	134,324
Fund balance, beginning - restated	<u>3,080,323</u>	<u>529,772</u>	<u>3,610,095</u>
Fund balance, end of year	<u>\$ 4,166,993</u>	<u>\$ 554,556</u>	<u>\$ 4,721,549</u>

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

**CITY OF MURRAY, KENTUCKY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds	\$ 1,111,454
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	2,566,259
In the statement of activities, only the gain (loss) on the sale of capital asset is reported. However, in governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold.	(21,066)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Debt issued	(2,500,000)
Principal payments on debt	291,703
Accrued compensated absences reported as long term liabilities in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(111,211)
Pension contributions are reported as expenditures in the governmental funds. However, pension expense in the statement of activities is primarily the result of changes in the components of the net pension liability over the current and future periods.	
Pension contributions	1,319,171
Pension expense	(620,359)
Internal service funds are used by management to charge the costs of certain activities, such as central garage services and employee health insurance, to individual funds. The net revenue (expense) of these internal service funds is reported with governmental activities.	<u>379,601</u>
Change in net position of governmental activities	<u>\$ 2,415,552</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Business-type Activities					Governmental Activities
	Water and Sewer	Gas	Sanitation	Stormwater	Totals	Internal Service
Assets						
Current Assets						
Cash and cash equivalents	\$ 72,162	\$ 6,359,925	\$ -	\$ 102,739	\$ 6,534,826	\$ -
Receivables (net of allowances)						
Customer	404,182	307,498	173,733	14,650	900,063	-
Miscellaneous	1,900	3,575	424	400	6,299	-
Due from other funds	32,559	242,862	-	-	275,421	24,669
Materials and supplies, at average cost	300,426	257,542	-	-	557,968	49,434
Total current assets	<u>811,229</u>	<u>7,171,402</u>	<u>174,157</u>	<u>117,789</u>	<u>8,274,577</u>	<u>74,103</u>
Noncurrent Assets						
Utility plant in service	58,773,796	7,899,833	-	-	66,673,629	-
Land	434,272	924,980	54,524	-	1,413,776	-
Buildings	832,080	1,221,175	314,723	-	2,367,978	225,000
Machinery and equipment	436,763	391,398	-	-	828,161	120,346
Vehicles	771,076	611,752	4,289,871	35,116	5,707,815	-
Other equipment	1,511,819	1,378,178	56,421	38,809	2,985,227	-
Drainage improvement	-	-	-	1,853,776	1,853,776	-
Accumulated depreciation	(31,086,107)	(6,019,742)	(3,814,188)	(241,368)	(41,161,405)	(312,987)
Restricted assets	1,415,262	403,923	329,350	-	2,148,535	866,653
Total non-current assets	<u>33,088,961</u>	<u>6,811,497</u>	<u>1,230,701</u>	<u>1,686,333</u>	<u>42,817,492</u>	<u>899,012</u>
Total assets	<u>33,900,190</u>	<u>13,982,899</u>	<u>1,404,858</u>	<u>1,804,122</u>	<u>51,092,069</u>	<u>973,115</u>
Deferred Outflows of Resources						
Deferred outflows related to pensions	278,195	153,739	109,814	14,642	556,390	21,963
Liabilities						
Current Liabilities						
Accounts payable	444,254	445,748	136,413	17,235	1,043,650	361,619
Accrued salaries and wages	59,330	36,985	20,308	2,837	119,460	5,253
Accrued compensated absences	125,287	71,272	75,301	3,512	275,372	28,539
Accrued liabilities	16,827	46,889	4,578	-	68,294	269,296
Due to other funds	-	13,973	108,582	-	122,555	134,280
Current portion of bonds/notes payable	148,183	-	-	-	148,183	-
Customer deposits	207,680	376,455	-	-	584,135	-
Accrued interest						
Bonds	14,453	-	-	-	14,453	-
Customer deposits	66,048	104,195	-	-	170,243	-
Total current liabilities	<u>1,082,062</u>	<u>1,095,517</u>	<u>345,182</u>	<u>23,584</u>	<u>2,546,345</u>	<u>798,987</u>
Noncurrent Liabilities						
Net pension liability	2,166,931	1,197,514	855,367	114,048	4,333,860	171,023
Accrued compensated absences	85,703	44,662	70,524	876	201,765	4,399
Notes payable	5,172,946	-	-	-	5,172,946	-
Bonds payable	443,000	-	-	-	443,000	-
Total non-current liabilities	<u>7,868,580</u>	<u>1,242,176</u>	<u>925,891</u>	<u>114,924</u>	<u>10,151,571</u>	<u>175,422</u>
Total liabilities	<u>8,950,642</u>	<u>2,337,693</u>	<u>1,271,073</u>	<u>138,508</u>	<u>12,697,916</u>	<u>974,409</u>
Deferred Inflows of Resources						
Deferred inflows related to pensions	193,506	106,938	76,384	10,185	387,013	15,277
Net Position						
Net investment in capital assets	25,909,570	6,407,574	901,351	1,686,333	34,904,828	32,359
Restricted						
Employee benefit trust	-	-	-	-	-	866,653
Debt service	700,949	-	-	-	700,949	-
Renewal and replacement	425,000	-	-	-	425,000	-
Landfill postclosure reserve	-	-	329,350	-	329,350	-
Unrestricted	(2,001,282)	5,284,433	(1,063,486)	(16,262)	2,203,403	(893,620)
Total net position	<u>\$ 25,034,237</u>	<u>\$ 11,692,007</u>	<u>\$ 167,215</u>	<u>\$ 1,670,071</u>	<u>\$ 38,563,530</u>	<u>\$ 5,392</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Business-type Activities					Governmental
	Water and Sewer	Gas	Sanitation	Stormwater	Totals	Activities Internal Service
Operating Revenues						
Charges for services	\$ 6,067,859	\$ 9,289,356	\$ 2,471,918	\$ 230,362	\$ 18,059,495	\$ -
Interfund services provided	-	-	-	-	-	834,243
Tap-on fees	174,604	201,722	-	-	376,326	-
Miscellaneous revenues	279,945	47,015	20,255	350	347,565	-
Contributions to medical insurance fund	-	-	-	-	-	1,627,784
Total operating revenues	<u>6,522,408</u>	<u>9,538,093</u>	<u>2,492,173</u>	<u>230,712</u>	<u>18,783,386</u>	<u>2,462,027</u>
Operating Expenses						
Water plant expenses	656,436	-	-	-	656,436	-
Sewer plant expenses	1,395,702	-	-	-	1,395,702	-
Water and sewer field operations	926,717	-	-	-	926,717	-
Gas purchased	-	6,151,481	-	-	6,151,481	-
Engineering operations	273,754	187,914	-	-	461,668	-
General office operations	589,920	548,273	-	-	1,138,193	-
Administrative expenses	464,035	178,384	-	-	642,419	476,364
Other operating expenses	611	102,413	-	-	103,024	815,235
Depreciation	1,531,478	324,930	221,800	54,311	2,132,519	8,670
Gas plant expenses	-	1,230,284	-	-	1,230,284	-
Transfer station and landfill expenses	-	-	2,170,047	-	2,170,047	-
Stormwater expenses	-	-	-	125,714	125,714	-
Medical claims paid	-	-	-	-	-	782,498
Total operating expenses	<u>5,838,653</u>	<u>8,723,679</u>	<u>2,391,847</u>	<u>180,025</u>	<u>17,134,204</u>	<u>2,082,767</u>
Operating income	<u>683,755</u>	<u>814,414</u>	<u>100,326</u>	<u>50,687</u>	<u>1,649,182</u>	<u>379,260</u>
Non-operating Revenues (Expenses)						
Interest and dividend income	15,438	44,940	3,214	1,152	64,744	1,069
Interest expense	(100,008)	(11,294)	-	-	(111,302)	-
Gain (loss) on sale of assets	(8,556)	(7,926)	(560)	-	(17,042)	(728)
Grant income	22,191	-	-	-	22,191	-
Total non-operating revenues (expenses)	<u>(70,935)</u>	<u>25,720</u>	<u>2,654</u>	<u>1,152</u>	<u>(41,409)</u>	<u>341</u>
Income before transfers	612,820	840,134	102,980	51,839	1,607,773	379,601
Operating Transfers						
From (to) other funds	(105,000)	(105,000)	(105,000)	-	(315,000)	-
Change in net position	<u>507,820</u>	<u>735,134</u>	<u>(2,020)</u>	<u>51,839</u>	<u>1,292,773</u>	<u>379,601</u>
Net position, beginning of year	26,713,416	12,165,478	1,032,523	1,733,337	41,644,754	(201,601)
Restatement for new pension standards	(2,186,999)	(1,208,605)	(863,288)	(115,105)	(4,373,997)	(172,608)
Net position, beginning of year - restated	<u>24,526,417</u>	<u>10,956,873</u>	<u>169,235</u>	<u>1,618,232</u>	<u>37,270,757</u>	<u>(374,209)</u>
Net position, end of year	<u>\$ 25,034,237</u>	<u>\$ 11,692,007</u>	<u>\$ 167,215</u>	<u>\$ 1,670,071</u>	<u>\$ 38,563,530</u>	<u>\$ 5,392</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Business-type Activities					Governmental
	Water and Sewer	Gas	Sanitation	Stormwater	Totals	Internal Service
Cash Flows From Operating Activities						
Cash received from customers	\$ 6,487,773	\$ 9,654,237	\$ 2,489,353	\$ 230,180	\$ 18,861,543	\$ -
Cash paid to suppliers	(3,149,855)	(6,916,758)	(938,749)	(46,812)	(11,052,174)	(653,599)
Cash paid for employees and benefits	(2,069,807)	(1,556,912)	(949,305)	(77,296)	(4,653,320)	(212,579)
Cash received from interfund services provided	-	-	-	-	-	1,182,566
Cash paid for internal services used	(128,723)	(96,336)	(345,773)	(1,714)	(572,546)	-
Customer deposits received (refunded)	(2,565)	17,335	-	-	14,770	-
Net cash provided by operating activities	<u>1,136,823</u>	<u>1,101,566</u>	<u>255,526</u>	<u>104,358</u>	<u>2,598,273</u>	<u>316,388</u>
Cash Flows From Noncapital Financing Activities						
Transfers to other funds	(105,000)	(105,000)	(105,000)	-	(315,000)	-
Landfill closure costs funded	-	-	(10,000)	-	(10,000)	-
Cash received for interfund payables	-	974,874	(136,978)	-	837,896	-
Non-capital state grant received	22,191	-	-	-	22,191	-
Net cash provided (used) by noncapital financing activities	<u>(82,809)</u>	<u>869,874</u>	<u>(251,978)</u>	<u>-</u>	<u>535,087</u>	<u>-</u>
Cash Flows From Capital And Related Financing Activities						
Proceeds from sale of capital assets	8,876	30,044	-	-	38,920	-
Acquisition and construction of capital assets	(2,081,008)	(1,157,889)	(6,762)	(172,499)	(3,418,158)	(2,475)
Proceeds from debt	551,128	-	-	-	551,128	-
Principal paid on capital debt	(141,596)	-	-	-	(141,596)	-
Interest paid on capital debt	(94,162)	-	-	-	(94,162)	-
Interest paid on customer deposits	(4,148)	(5,416)	-	-	(9,564)	-
Net cash used by capital and related financing activities	<u>(1,760,910)</u>	<u>(1,133,261)</u>	<u>(6,762)</u>	<u>(172,499)</u>	<u>(3,073,432)</u>	<u>(2,475)</u>
Cash Flows From Investing Activities						
Interest and dividends	15,438	44,940	3,214	1,152	64,744	1,069
Proceeds from sale or maturities of investments	-	-	-	-	-	75,000
Net cash provided by investing activities	<u>15,438</u>	<u>44,940</u>	<u>3,214</u>	<u>1,152</u>	<u>64,744</u>	<u>76,069</u>
Net increase (decrease) in cash and cash equivalents	(691,458)	883,119	-	(66,989)	124,672	389,982
Cash and cash equivalents at beginning of year	<u>2,178,882</u>	<u>5,880,729</u>	<u>-</u>	<u>169,728</u>	<u>8,229,339</u>	<u>476,671</u>
Cash and cash equivalents at end of year	<u>\$ 1,487,424</u>	<u>\$ 6,763,848</u>	<u>\$ -</u>	<u>\$ 102,739</u>	<u>\$ 8,354,011</u>	<u>\$ 866,653</u>
Cash and cash equivalents are included on the Statement of Net Position as:						
Cash and cash equivalents	\$ 72,162	\$ 6,359,925	\$ -	\$ 102,739	\$ 6,534,826	\$ -
Restricted assets	<u>1,415,262</u>	<u>403,923</u>	<u>-</u>	<u>-</u>	<u>1,819,185</u>	<u>866,653</u>
Total	<u>\$ 1,487,424</u>	<u>\$ 6,763,848</u>	<u>\$ -</u>	<u>\$ 102,739</u>	<u>\$ 8,354,011</u>	<u>\$ 866,653</u>
Noncash Pension Activity						
Pension expense	\$ 173,438	\$ 95,847	\$ 68,462	\$ 9,128	\$ 346,875	\$ 13,692
Net pension liability	(2,166,931)	(1,197,514)	(855,367)	(114,048)	(4,333,860)	(171,023)
Deferred inflows related to pensions	(193,506)	(106,938)	(76,384)	(10,185)	(387,013)	(15,277)
Restatement of beginning net position for beginning pension liability	<u>2,186,999</u>	<u>1,208,605</u>	<u>863,289</u>	<u>115,105</u>	<u>4,373,998</u>	<u>172,608</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	<u>Business-type Activities</u>					<u>Governmental</u>
	<u>Water and Sewer</u>	<u>Gas</u>	<u>Sanitation</u>	<u>Stormwater</u>	<u>Totals</u>	<u>Internal Service</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating income	\$ 683,755	\$ 814,414	\$ 100,326	\$ 50,687	\$ 1,649,182	\$ 379,260
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation expense	1,531,478	324,930	221,800	54,311	2,132,519	8,670
Pension contributions paid	(278,195)	(153,739)	(109,814)	(14,642)	(556,390)	(21,963)
Pension expense	173,438	95,847	68,462	9,128	346,875	13,692
(Increase) Decrease in operating assets:						
Receivables - customers	(37,845)	118,171	(3,047)	(747)	76,532	-
Receivables - other	3,210	(2,027)	227	215	1,625	8,345
Inventory	(13,449)	(86,506)	-	-	(99,955)	10,908
Increase (Decrease) in operating liabilities:						
Accounts payable	(59,343)	(25,724)	(13,256)	4,085	(94,238)	7,513
Accrued expenses	(29,630)	12,216	(9,172)	1,321	(25,265)	(53,613)
Customer deposits	(2,565)	17,335	-	-	14,770	-
Due to other funds	(834,031)	(13,351)	-	-	(847,382)	(36,424)
Net cash provided by operating activities	<u>\$ 1,136,823</u>	<u>\$ 1,101,566</u>	<u>\$ 255,526</u>	<u>\$ 104,358</u>	<u>\$ 2,598,273</u>	<u>\$ 316,388</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2015

	Pension Trust Fund	Private-Purpose Trust Fund	
	Employee Retirement	Cemetery	Totals
Assets			
Restricted assets			
Cash	\$ 5,053	\$ -	\$ 5,053
Investments, at fair value	983,189	165,372	1,148,561
Total assets	988,242	165,372	1,153,614
Liabilities			
Accounts payable	-	2,910	2,910
Due to General Fund	-	15,125	15,125
Total liabilities	-	18,035	18,035
Net Position			
Assets held in trust for pension benefits and other purposes	\$ 988,242	\$ 147,337	\$ 1,135,579

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2015

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	
	<u>Employee Retirement</u>	<u>Cemetery</u>	<u>Totals</u>
Additions			
Contributions	\$ 159,306	\$ -	\$ 159,306
Cemetery sales	-	27,250	27,250
Investment income:			
Interest and dividends	28,231	1,391	29,622
Net decrease in fair value of investments	(54,981)	-	(54,981)
Gain on sale of assets	45,579	-	45,579
Total additions	<u>178,135</u>	<u>28,641</u>	<u>206,776</u>
Deductions			
Benefits	181,988	-	181,988
Administrative expenses	7,031	24,256	31,287
Repairs and maintenance	-	17,903	17,903
Total deductions	<u>189,019</u>	<u>42,159</u>	<u>231,178</u>
Changes in net position	(10,884)	(13,518)	(24,402)
Net position, beginning of the year	<u>999,126</u>	<u>160,855</u>	<u>1,159,981</u>
Net position, end of the year	<u>\$ 988,242</u>	<u>\$ 147,337</u>	<u>\$ 1,135,579</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Murray, Kentucky was incorporated in 1844, and operates under an elected Mayor-Council form of government, and provides the following services as authorized: public safety (police and fire), streets, planning and zoning, general administrative services, cemetery, and utilities (water and sewer system, natural gas system, sanitation department, and stormwater system).

B. Basis of Presentation – Fund Accounting

The accounts of the City of Murray are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions. The City has various types of funds as defined below.

Governmental funds

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Fund – This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established. The General Fund is considered a major fund.

Special Revenue Funds – These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes. The City has no major special revenue funds for the current year.

Proprietary funds

These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are:

Enterprise Funds – These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Major enterprise funds are the natural gas, water and sewer, and sanitation department.

Internal Service Funds – These funds are established to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Fiduciary funds

These funds account for assets held by the City as a trustee or agent for individuals, private organizations, and other units of governments. These funds consist of the following fund types:

Pension Trust Fund – This fund was established to provide pension benefits for employees of the police and fire departments who were not transferred to the hazardous service coverage of CERS.

Nonexpendable Trust Fund – This fund is used to account for the maintenance of the cemetery.

C. Basis of Accounting and Measurement Focus

The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report information on all funds of the primary government except for fiduciary funds. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. Fiduciary funds are also excluded from the government-wide financial statements.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financial statements. The government-wide Statement of Activities presents a comparison between expenses and program revenues. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants received that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which governmental functions are self-financing or draw from the general revenues of the City. Direct expenses are those that are clearly identifiable within a specific function or activity.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of the governmental and enterprise fund financial statements is on major funds, rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service funds are aggregated and presented in a single column on the face of the proprietary funds statements.

Governmental fund types use the modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available (often referred to as *susceptible to accrual*).

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Revenues are measurable when they are subject to reasonable estimation, while the collection will occur either (1) during the current period or (2) after the end of the period but in time to pay fund liabilities. The City considers revenues to be available if they are expected to be collected within 60 days of the end of the year. Generally, tax revenues (including taxpayer-assessed taxes), fees, and nontax revenues are recognized when received. Grants, entitlements, and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when the conditions of the grants are satisfied. Property tax revenues are recognized when they are levied, with proper allowances made for estimated uncollectible accounts and delinquent accounts. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except unmatured interest on general long-term debt which is recorded when due.

Fiduciary funds account for assets held by the City in a trustee capacity. These funds use the accrual basis of accounting and the economic resources measurement focus.

D. Impact of Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement 68 was effective for fiscal years beginning after June 15, 2014, and details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers report liabilities related to pension obligations. The adoption of Statement 68 resulted in a restatement of beginning net position to record the calculated liability to the pension plan as of July 1, 2014. This restatement decreased governmental net position by \$8,154,224 and increased net pension liability by this same amount. Beginning net position in business-type activities decreased by \$4,373,997 to reflect the increase in net pension liability.

E. Cash and cash equivalents

For purposes of the proprietary statement of cash flows, the City's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition and readily convertible to cash.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Interfund receivables and payables arise from activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and are identified as due to/due from other funds.

G. Investments

The City's investment policy requires that funds held by the City be invested in obligations of the U.S. government or U.S. government agencies, or certificates of deposit or similar instruments of banks or savings and loan institutions. Investments are stated at cost, which approximates market, in all funds except the Police and Firemen's Pension Fund. Investments for this fund are stated at fair value.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

H. Capital Assets

The accounting treatment for capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In government-wide and proprietary fund financial statements, capital assets are recorded at historical cost or estimated historical cost if actual is unavailable. It is the City's policy to capitalize expenditures greater than or equal to \$1,000 with an estimated useful life greater than one year. Donated capital assets are recorded at estimated fair market value at the date of donation. Estimated historical cost was used to value infrastructure assets acquired prior to July 1, 2002, in the governmental activities. Depreciation expense is recorded in the statement of activities, and accumulated depreciation is reflected in the statement of net position.

In the governmental fund statements, capital assets are accounted for as capital expenditures of the funds upon acquisition. Capital assets acquired for proprietary funds are capitalized within the respective funds.

Depreciation has been provided over the estimated useful lives of the capital assets using the straight-line method of depreciation. The estimated useful lives for each major class of depreciable assets are as follows:

Infrastructure assets	25 – 50 years
Utility plant	33 – 50 years
Machinery and equipment	5 – 20 years
Buildings	25 – 33 years
Vehicles	4 – 5 years

I. Restricted Assets

Because of certain requirements, the City established and maintains prescribed amounts of resources (consisting of cash and temporary investments) that can be used only for specified purposes.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applied to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has both deferred outflows and deferred inflows related to its pension plan. See Note 3G for details concerning these items.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

K. Compensated Absences

Under terms of employment, the City provides full-time employees with paid vacation and sick leave in varying amounts based on years of service. Employees who have accrued 36 days unused sick leave at the end of the fiscal year are paid for 75% of the sick leave accrued. Employees who have met the minimum accruals and have one or more days of sick leave are paid 50% of the sick leave accrued at the end of the fiscal year. All unused sick leave may be carried forward to apply toward the maximum accrual of 180 days. Employees who have successfully met retirement requirements and have received approval for retirement from the Kentucky Retirement System may elect to either be compensated for 50% of accrued sick leave or apply toward early retirement.

The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. For governmental fund financial statements, a liability is recorded only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Retirement Systems (KRS) County Employees Retirement System (CERS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by KRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Plan. Investments are reported at fair value.

M. Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. All long-term debt to be repaid from governmental and business-type resources is reported in the government-wide statements. The long-term debt consists primarily of notes payable and bonds payable.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources and repayments as expenditures. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

N. Equity Classification

Equity in the government-wide statements is classified as net position and displayed in three components:

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances on any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Restricted – This component of net position consists of assets subject to external constraints on their use imposed by creditors, laws or regulations of other governments. This component would also include constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets”. Generally, these net assets represent those financial resources that are available to the Board to meet any future obligations that might arise.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund classification includes amounts that cannot be spent because they are either (1) not in spendable form – prepaid items or inventories; or (2) legally or contractually required to be maintained intact. At June 30, 2015, none of the City’s fund balances were classified as nonspendable.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance – This classification reflects the constraints imposed on resources, either (1) externally by creditors, grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by ordinances of the city council – the City’s highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the city council removes the specified use by taking the same kind of action imposing the commitment.

Assigned fund balance – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The city council and the mayor have the authority to assign amounts to be used for specific purposes through executive or municipal orders.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. Unassigned fund balance in the general fund is the net resources in excess of what can be properly classified in one of the above four categories.

When restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then committed and assigned, and then unassigned resources as they are needed.

O. Property Tax Revenue

Property taxes are levied on September 30 based on the assessed value of property as listed on the previous January 1, and are due on the following October 31. Assessed values are an approximation of market value. Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Proper allowances are made for estimated uncollectible accounts and delinquent accounts.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

P. Postemployment Healthcare Benefits

The City does not provide postemployment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the City.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets and the Budgetary Process

The City Council adopts an annual operating budget, which can be amended by the council throughout the year. Formal budgetary accounting is employed as a management control for all funds of the City; however, legal budgets are adopted only for the General Fund and Special Revenue Funds. All budgets adopted are prepared in accordance with generally accepted accounting principles.

At the fund level, actual expenditures cannot exceed budgeted appropriations. However, with proper approval by the City Council, budgetary transfers between departments can be made. All budget amendments were approved by the City Council and are included in the “final budget” column of the General Fund budgetary statement presented as required supplementary information.

B. Deficits in Fund Equity

A deficit of \$255,420 exists in the Central Garage Fund as of June 30, 2015, resulting from excess expenditures incurred and the pension adjustments required by the new pension standards adopted during the current year. The general fund is liable for any deficit in this fund and provides transfers when cash is required.

NOTE 3 – DETAIL NOTES

A. Deposits with Financial Institutions

Deposits are carried at cost. The carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents and restricted assets.

The City’s investment policy requires that funds held directly by the City be invested in obligations of the United States government or United States government agencies, or certificates of deposit or similar instruments of banks or savings and loan institutions.

Custodial credit risk of deposits is the risk that in the event of a bank failure the government’s deposits may not be returned to it. Interest-bearing and non-interest bearing deposits are each covered by federal depository insurance up to \$250,000. Deposits over the insured amounts are covered by collateral held by the City’s agent in the City’s name. At June 30, 2015, all bank balances were covered by insurance or adequately collateralized. All funds are classified as public funds.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

B. Investments

The City's investments are held in trust and asset management accounts for the Police and Fireman's Pension Fund. Investments at June 30, 2015, are summarized below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>Moody's Rating</u>
FHLMC	\$ 50,421	5.2%	AAA
Goldman Sachs	54,964	5.6%	Baa1
Merrill Lynch	25,960	2.6%	Baa3
HSBC	25,607	2.6%	Baa1
Common Stock	526,002	53.5%	Unrated
Mutual Funds	300,235	<u>30.5%</u>	Unrated
	<u>\$ 983,189</u>	100.0%	

Custodial credit risk – This is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments. The investments listed above are exposed to custodial credit risk in that they are uninsured and held by the counterparty's trust department in the City's name.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015, the City's investments were rated as shown in the above table.

Concentrations of credit risk – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy as required by KRS 66.480 does not place a fixed percentage limit for any one issuer. At June 30, 2015, the City had two instances of investments with a single issuer exceeding 5% of total investments, as shown in the above table.

C. Property Taxes

The City is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state legislation. The property assessment date is January 1, with taxes levied on September 30 and due on October 31. Property taxes receivable as of June 30, 2015, are composed of the following:

<u>Year of Levy</u>	
2014	\$ 605,459
2013	51,308
2012	46,640
2011	28,663
2010	28,720
2009	23,000
2008	19,353
2007 and prior	<u>51,107</u>
Total property taxes receivable	854,250
Less allowance for uncollectibles	<u>(211,187)</u>
Net property taxes receivable	<u>\$ 643,063</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

D. Interfund Transactions

Interfund receivables and payables at June 30, 2015, for operating expenses were as follows:

		<u>Due from</u>	<u>Due to</u>
Governmental Funds:	General Fund	\$ 12,577	\$ 279,868
	Alcoholic Beverage Control	250,770	-
	Municipal Aid Fund	19,982	-
	Cemetery	15,125	-
Internal Service Funds:	Central Garage	134,280	-
Proprietary Funds:	Natural Gas	13,973	242,862
	Water and Sewer	-	32,559
	Sanitation	108,582	-
Totals		<u>\$ 555,289</u>	<u>\$ 555,289</u>

The following interfund transfers were made during the year:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Purpose</u>	<u>Amount</u>
E-911	General	Administration	\$ 125,000
Water and Sewer	General	General operations	105,000
Natural Gas	General	General operations	105,000
Sanitation	General	General operations	105,000
Municipal Aid	General	General operations	50,000
Cemetery	General	General operations	20,000
Alcoholic Beverage Control	General	General operations	1,000,000
			<u>\$ 1,510,000</u>

E. Property, Plant, and Equipment

Capital asset activity for the year is summarized as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2015</u>
Governmental Activities				
Land	\$ 528,939	\$ -	\$ -	\$ 528,939
Construction in progress	-	2,231,763	-	2,231,763
Capital assets being depreciated				
Buildings	1,295,414	-	-	1,295,414
Machinery and equipment	4,208,569	244,015	(44,348)	4,408,236
Infrastructure	9,748,574	762,520	-	10,511,094
Total being depreciated	<u>15,252,557</u>	<u>1,006,535</u>	<u>(44,348)</u>	<u>16,214,744</u>
Less accumulated depreciation:				
Buildings	766,682	22,828	-	789,510
Machinery and equipment	1,853,261	305,306	(23,282)	2,135,285
Infrastructure	3,304,194	350,102	-	3,654,296
Total accumulated depreciation	<u>5,924,137</u>	<u>678,236</u>	<u>(23,282)</u>	<u>6,579,091</u>
Net being depreciated	<u>9,328,420</u>	<u>328,299</u>	<u>(21,066)</u>	<u>9,635,653</u>
Net capital assets - governmental	<u>\$ 9,857,359</u>	<u>\$ 2,560,062</u>	<u>\$ (21,066)</u>	<u>\$ 12,396,355</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2015</u>
Business-type Activities				
Land	\$ 1,392,144	\$ 21,632	\$ -	\$ 1,413,776
Buildings	2,367,978	-	-	2,367,978
Machinery and equipment	9,139,272	420,559	(38,628)	9,521,203
Drainage improvement	1,681,277	172,499	-	1,853,776
Utility plant	63,950,723	2,803,469	(80,563)	66,673,629
Totals at historical cost	<u>78,531,394</u>	<u>3,418,159</u>	<u>(119,191)</u>	<u>81,830,362</u>
Less accumulated depreciation				
Buildings	1,454,537	75,186	-	1,529,723
Machinery and equipment	6,855,969	549,859	(3,835)	7,401,993
Drainage improvement	166,175	42,873	-	209,048
Utility plant	30,615,434	1,464,601	(59,394)	32,020,641
Total accumulated depreciation	<u>39,092,115</u>	<u>2,132,519</u>	<u>(63,229)</u>	<u>41,161,405</u>
Net capital assets - business-type	<u>\$ 39,439,279</u>	<u>\$ 1,285,640</u>	<u>\$ (55,962)</u>	<u>\$ 40,668,957</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 31,492
Police department	115,845
Fire department	111,930
Street department	409,440
Central garage	8,670
Tourism	859
Total	<u>\$ 678,236</u>

F. Restricted Assets

Restricted assets at June 30, 2015, consisted of the following cash accounts:

General fund - CDBG Housing	\$ 57,224
Tourism escrow	87,209
Special revenue funds	331,932
Employee benefits	866,653
Total governmental funds	<u>1,343,018</u>
Water and Sewer - Meter deposits	289,313
Bond and interest reserve	700,949
Renewal and replacement funds	425,000
Natural Gas - Meter deposits	403,923
Sanitation - Landfill postclosure reserve	329,350
Total business-type funds	<u>2,148,535</u>
Total restricted assets	<u>\$ 3,491,553</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

G. Retirement Plan

Plan Description. The City contributes to the Kentucky Retirement Systems (KRS) County Employees Retirement System (CERS), which consists of two plans – Nonhazardous and Hazardous. Each plan is a cost-sharing multiple employer defined benefit pension plan. The plans were established in 1958 by the Kentucky General Assembly in order to supplement the benefits provided by Social Security. Under the provisions of Kentucky Revised Statute Section 61.701, the KRS Board of Trustees administers the Kentucky Retirement Systems Insurance Fund. All regular full-time employees of the City are eligible to participate in the plans.

The plans provide for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Under the City's plans, any member, age 65 or older, with at least 1 month of service credit may elect to receive a benefit for life that is an actuarial equivalent to twice the member's contributions and interest. A member, age 65 or older, with at least 48 months of service credit is eligible to receive an unreduced monthly benefit for life based on the member's salary and service credit. A member with 27 or more years of service credit can retire at any time with no reduction in benefits. A member with at least 25, but less than 27 years of service credit, may retire at any time, prior to age 65, with a reduction in benefits. A member age 55, with at least 5 years of service credit, may retire with a reduction in benefits.

For the year ended June 30, 2015, the City's total covered payroll was \$7,501,223. Covered payroll refers to all compensation paid by the City to active employees covered by the plans.

Contributions. The contribution requirements of plan members and the City are established by state statute. Employee contributions for plan members who began participating with KRS prior to September 1, 2008, were 5% for nonhazardous employees and 8% for hazardous employees of their annual creditable compensation to KRS. Those who began on or after September 1, 2008, contribute a total of 6% for nonhazardous and 9% for hazardous of all their creditable compensation to KRS. One percent of each employee's contribution is deposited to the KRS Pension Fund 401(h) account for the payment of health insurance benefits. If a member terminates his/her employment and applies to take a refund, the member is entitled to a full refund of contributions and interest in his/her account; however, the 1% contributed to the 401(h) account is non-refundable and is forfeited. Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan, a hybrid plan with characteristics of both a defined benefit plan and a defined contribution plan. Members contribute 5% (nonhazardous) and 8% (hazardous) of their annual creditable compensation and 1% to the health insurance fund. Employer contribution rates for fiscal year 2015 were adopted by the Board of KRS based on actuarially recommended rates. The required contribution rates for the year ended June 30, 2015, were 17.67% for nonhazardous employees and 34.31% for hazardous employees. The City's contributions to the plans for the year ended June 30, 2015, were \$1,884,250.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Pension Liabilities. At June 30, 2015, the City reported a liability of \$5,702,397 for its proportionate share of the net pension liability of the nonhazardous plan and \$6,665,601 for the hazardous plan. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's proportion was 0.175764 percent for the nonhazardous plan and 0.00554623 percent for the hazardous plan.

Pension Expense. For the year ended June 30, 2015, the City recognized pension expense of \$456,416 for the nonhazardous plan and \$516,532 for the hazardous plan.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Plan investments:		
Nonhazardous plan	\$ -	\$ 509,226
Hazardous plan	-	524,438
Contributions subsequent to the measurement date of June 30, 2014		
Nonhazardous plan	732,091	-
Hazardous plan	1,152,159	-
Total	\$ 1,884,250	\$ 1,033,664

The deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending June 30:	
2016	\$258,416
2017	258,416
2018	258,416
2019	258,416

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Actuarial Assumptions. The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of Plan investment expense, including inflation

Mortality rates for the period after service retirement were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

The long-term expected rate of return on pension plan investments is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. 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 and net of investment expense) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long- term Expected Real Rate of Return</u>
Domestic equity	30%	8.45%
International equity	22%	8.85%
Emerging market equity	5%	10.50%
Private equity	7%	11.25%
Real estate	5%	7.00%
Core US fixed income	10%	5.25%
High yield US fixed income	5%	7.25%
Non US fixed income	5%	5.50%
TIPS	5%	5.00%
Commodities	5%	7.75%
Cash	1%	3.25%
Total	<u>100%</u>	

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2116. 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 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability	
		Nonhazardous Plan	Hazardous Plan
1% decrease	6.75%	\$ 8,771,485	\$ 7,459,713
Current discount rate	7.75%	\$ 6,665,601	\$ 5,702,452
1% increase	8.75%	\$ 4,805,003	\$ 4,210,393

Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems comprehensive annual financial report for the fiscal year ended June 30, 2014.

Murray Convention and Visitors Bureau

Employees of the Murray Convention and Visitors Bureau, which is reported as a special revenue fund of the City, have an individual employer account with CERS. The basic information about the pension plan has been reported above. Therefore, only those items specific to the Murray Convention and Visitors Bureau are included here.

Contributions. The Murray Convention and Visitors Bureau's contributions to the plan for the year ended June 30, 2015, were \$13,274.

Pension Liabilities. At June 30, 2015, the Murray Convention and Visitors Bureau reported a liability of \$99,708 for its proportionate share of the net pension liability of the plan. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Murray Convention and Visitors Bureau's proportion of the net pension liability was based on a projection of their long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the Murray Convention and Visitors Bureau's proportion was 0.003073 percent.

Pension Expense. For the year ended June 30, 2015, the Murray Convention and Visitors Bureau recognized pension expense of \$7,980.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the Murray Convention and Visitors Bureau 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>
Net difference between projected and actual earnings on Plan investments:	\$ -	\$ 7,778
Contributions subsequent to the measurement date of June 30, 2014	<u>13,274</u>	<u>-</u>
Total	<u>\$ 13,274</u>	<u>\$ 7,778</u>

The deferred outflows of resources resulting from the Murray Convention and Visitors Bureau's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending June 30:	
2016	\$(2,593)
2017	(2,593)
2018	(2,592)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Police and Firemen's Pension Fund

On August 1, 1988, the City adopted an ordinance to participate in the CERS plan (described above) for all current employees of the police and fire departments, as well as those hired after August 1, 1988. Former employees of the police and fire departments who were receiving benefits on August 1, 1988, were not transferred to CERS. These benefits are continuing to be paid from the Police and Firemen's Pension Fund, a fiduciary fund of the City, which has assets with a fair value of \$988,242 at June 30, 2015. An actuarial valuation was performed as of June 30, 2014, and submitted by the actuary in May 2015. However, there was no indication that the plan had adopted the provisions of GASB 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, effective for fiscal years beginning after June 15, 2013. This standard revised existing standards of financial reporting by state and local government pension plans. Management is currently evaluating the effects of adopting GASB 68 on this fiduciary plan. None of the previous pension disclosures include any activity in this plan for the current or prior year.

H. Long-Term Liabilities

Long-term liabilities include compensated absences, pension liabilities, and long-term debt of the City. The liability for compensated absences is liquidated 90% by the General Fund, with the remaining amount attributable to internal service funds. Pension liabilities, due to their unique nature, are discussed separately in Note 3G and, therefore, are not included in this discussion.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Notes and bonds payable at June 30, 2015, are summarized, as follows:

Governmental Activities	
US Bank term loan – due in scheduled maturities through November 1, 2019	\$ 161,279
BB&T notes payable – due in scheduled maturities through January 13, 2023	351,706
BB&T notes payable – due in scheduled maturities through November 29, 2015	55,589
TMB note payable – monthly payments of \$12,355 through July 23, 2035, including interest at 1.75%	2,500,000
Community Financial Services Bank note payable – monthly payments of \$8,524 through May 5, 2024, including interest at 2.78%	798,891
	\$ 3,867,465
Water and Sewer Fund	
Kentucky Area Development Districts Financing Trust – due in scheduled maturities through May 20, 2023 at 1.5% to 4.7%	\$ 750,000
Kentucky Infrastructure Authority Revolving Loan Fund – due in scheduled maturities through June 1, 2029, at 1%	884,777
Kentucky Infrastructure Authority Revolving Loan Fund – due in scheduled maturities through 2033 at 1%	3,677,352
2001 Revenue Bonds – due in scheduled maturities through January 1, 2041 at 4.75%	452,000
	\$ 5,764,129

The annual debt service requirements to maturity for the above long-term debt as of June 30, 2015, are presented below:

Year Ending	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 313,253	\$ 74,791	\$ 148,183	\$ 65,910
2017	273,332	71,281	153,776	61,411
2018	280,221	64,392	155,375	56,694
2019	291,192	56,823	1,828,421	203,950
2020	250,816	50,508	2,177,504	627,613
2021-2025	1,089,400	169,936	694,347	146,717
2026-2030	648,979	92,298	345,523	81,073
2031-2035	708,278	32,999	102,000	52,773
2036-2040	11,994	17	129,000	25,983
2041	-	-	30,000	1,425
	\$ 3,867,465	\$ 613,045	\$ 5,764,129	\$ 1,323,549

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

The following is a summary of the City's long-term liability activity for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Payments	Balance June 30, 2015	Current Portion
Governmental activities					
US Bank	\$ 199,548	\$ -	\$ 38,269	\$ 161,279	\$ 36,828
BB&T - fire truck	394,500	-	42,794	351,706	43,715
BB&T - police vehicles	187,669	-	132,080	55,589	55,589
TMB	-	2,500,000	-	2,500,000	96,376
Community Financial Services	877,451	-	78,560	798,891	80,745
Compensated absences	381,242	115,752	-	496,994	331,864
Total	<u>2,040,410</u>	<u>2,615,752</u>	<u>291,703</u>	<u>4,364,459</u>	<u>645,117</u>
Business-type activities					
KADD	825,000	-	75,000	750,000	80,000
KIA	943,373	-	58,596	884,777	59,183
KIA 12/12	3,126,224	551,128	-	3,677,352	-
2001 Revenue Bonds	460,000	-	8,000	452,000	9,000
Compensated absences	504,253	-	27,116	477,137	275,372
Total	<u>5,858,850</u>	<u>551,128</u>	<u>168,712</u>	<u>6,241,266</u>	<u>423,555</u>
Total long-term liabilities	<u>\$ 7,899,260</u>	<u>\$ 3,166,880</u>	<u>\$ 460,415</u>	<u>\$ 10,605,725</u>	<u>\$ 1,068,672</u>

I. Conduit Debt Obligations

As of June 30, 2015, the City of Murray had the following bond issues outstanding related to the acquisition and construction of facilities:

Murray State University Wellness & Recreation	\$ 8,465,000
Murray Calloway County Hospital	<u>14,710,000</u>
Total principal amounts payable	<u>\$ 23,175,000</u>

J. Risk Management

The City 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. To obtain insurance of these risks, the City participates in the Kentucky League of Cities Insurance Services (KLCIS). These public entity risk pools operate as common risk managements and insurance programs for participating cities and other governmental entities in Kentucky. The City pays an annual premium to each fund for coverage.

City employees are provided traditional health care insurance that covers hospitalization and major medical expenses within specified limits. The plan is self-funded by the City and administered by a third-party administrator. The City pays the administrator a fee for various claim administration services. The City pays all claims after the third-party administrator who in turn issues individual claim checks. The City carries stop-loss insurance against catastrophic losses. The premiums for these policies are billed by the third-party administrator to the City. The claims liability reported in the Medical Insurance Fund at June 30, 2015 was estimated using information provided by the third-party administrators.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

K. Commitments and Contingencies

The City has possible contingent liabilities resulting from litigation and claims incident to the ordinary course of business. Management and counsel believe that the probable solution of such contingencies will not materially affect the financial position or results of operations of the City.

L. Claims and Judgments

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 30, 2015, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

M. Prior Period Adjustments

During the current year, it was determined that grant revenue of \$148,712 had been received in the prior year and not reported. Beginning fund balance in the General Fund was increased by this amount. In addition, an error in reporting a receivable and payable between the General Fund and Alcoholic Beverage Control Fund was discovered, and the beginning fund balances of both funds were adjusted for \$114,116, as well as the corresponding due to/due from accounts. In the Tourism Fund, a prior period error was discovered related to a receivable, resulting in an overstatement of revenue in the prior year. Beginning fund balance was decreased by \$14,388. These same adjustments were made to beginning net position for governmental activities in the statement of activities, along with the restatements attributable to the adoption of the new pension standards disclosed previously.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MURRAY, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015

**Schedule of City of Murray's Proportionate Share of the Net Pension Liability
County Employees Retirement System of Kentucky Retirement Systems—**

Nonhazardous Plan

Fiscal Years Ending June 30,

	2014
City of Murray's proportion of the collective net pension liability	.175764%
City of Murray's proportionate share of the net pension liability	\$ 5,702,397
City of Murray's covered employee payroll	\$ 4,143,147
City of Murray's proportionate share of the net pension liability as a percentage of its covered employee payroll	137.64%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

Hazardous Plan

Fiscal Years Ending June 30,

	2014
City of Murray's proportion of the collective net pension liability	.554623%
City of Murray's proportionate share of the net pension liability	\$ 6,665,601
City of Murray's covered employee payroll	\$ 3,358,076
City of Murray's proportionate share of the net pension liability as a percentage of its covered employee payroll	198.49%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

**Schedule of Murray Convention and Visitors Bureau's Proportionate Share of the
Net Pension Liability—County Employees Retirement System**

Fiscal Years Ending June 30,

	2014
Bureau's proportion of the collective net pension liability	.003073%
Bureau's proportionate share of the net pension liability	\$ 99,708
Bureau's covered employee payroll	\$ 70,506
Bureau's proportionate share of the net pension liability as a percentage of its covered employee payroll	141.42%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

All schedules are to be 10-year schedules; however, the information in the schedules is not required to be presented retroactively. Years will be added to the schedules in future fiscal years until 10 years of information is available.

See independent auditor's report

CITY OF MURRAY, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015

Schedule of City of Murray's Contributions
County Employees Retirement System of Kentucky Retirement Systems–
Nonhazardous Plan
Fiscal Years Ending June 30,

	2014	2015
Actuarially determined contributions	\$ 761,704	\$ 732,091
Contributions in relation to the actuarially determined contribution	761,704	732,091
Contribution deficiency (excess)	\$ -	\$ -
City of Murray's covered employee payroll	\$ 4,032,313	\$ 4,143,147
City of Murray's contributions as a percentage of covered employee payroll	18.89%	17.67%

Hazardous Plan
Fiscal Years Ending June 30,

	2014	2015
Actuarially determined contributions	\$ 1,002,863	\$ 1,152,159
Contributions in relation to the actuarially determined contribution	1,002,863	1,152,159
Contribution deficiency (excess)	\$ -	\$ -
City of Murray's covered employee payroll	\$ 2,809,140	\$ 3,358,076
City of Murray's contributions as a percentage of covered employee payroll	35.70%	34.31%

Schedule of Murray Convention and Visitors Bureau's Contributions
County Employees Retirement System of Kentucky Retirement Systems
Fiscal Years Ending June 30,

	2014	2015
Actuarially determined contributions	\$ 13,318	\$ 13,274
Contributions in relation to the actuarially determined contribution	13,318	13,274
Contribution deficiency (excess)	\$ -	\$ -
Bureau's covered employee payroll	\$ 70,506	\$ 73,309
Bureau's contributions as a percentage of covered employee payroll	18.89%	18.11%

See independent auditor's report

CITY OF MURRAY, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015

Notes to Schedules

Changes of benefit terms. The following change was made by the Kentucky Legislature and reflected in the valuation performed as of June 30:

2014 – A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumptions. The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30:

2013 – The amortization period of the unfunded accrued liability was reset to a closed 30 year period.

Method and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 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 contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary increase	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

CITY OF MURRAY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
Revenues				
Property taxes	\$ 3,736,000	\$ 3,736,000	\$ 3,922,106	\$ 186,106
Insurance tax	1,750,000	2,250,000	2,041,339	(208,661)
Vehicle license tax	1,040,000	1,225,000	973,367	(251,633)
Franchise taxes	177,500	177,500	181,138	3,638
Occupational business licenses	290,000	290,000	318,961	28,961
Payments in lieu of taxes	85,000	85,000	61,278	(23,722)
Bank shares	125,000	125,000	142,993	17,993
Licenses and permits	67,500	107,500	193,270	85,770
Fines and fees	11,000	11,000	7,725	(3,275)
Intergovernmental revenue	37,000	37,000	30,187	(6,813)
Interest	27,500	27,500	16,378	(11,122)
Miscellaneous income	294,500	294,500	194,302	(100,198)
Grant funds received	3,314,000	5,208,001	3,982,425	(1,225,576)
Transient room tax	250,000	250,000	-	(250,000)
Total revenues	<u>11,205,000</u>	<u>13,824,001</u>	<u>12,065,469</u>	<u>(1,758,532)</u>
Expenditures				
General government	4,327,900	4,437,965	4,357,766	80,199
Police department	3,423,850	3,968,850	3,844,707	124,143
Fire department	3,480,100	7,808,401	5,420,019	2,388,382
Street department	842,650	842,650	772,913	69,737
Planning and zoning	444,150	444,150	295,969	148,181
Debt service				
Principal	-	-	259,155	(259,155)
Interest	-	-	38,270	(38,270)
Total expenditures	<u>12,518,650</u>	<u>17,502,016</u>	<u>14,988,799</u>	<u>2,513,217</u>
Revenues over (under) expenditures	<u>(1,313,650)</u>	<u>(3,678,015)</u>	<u>(2,923,330)</u>	<u>754,685</u>
Other Financing Sources (Uses)				
Transfers from other funds	1,315,000	1,022,940	1,510,000	487,060
Proceeds from debt	-	2,500,000	2,500,000	-
Total other financing sources (uses)	<u>1,315,000</u>	<u>3,522,940</u>	<u>4,010,000</u>	<u>487,060</u>
Net change in fund balance	1,350	(155,075)	1,086,670	1,241,745
Fund balance, beginning of year	2,195,000	2,195,000	3,045,727	850,727
Prior period adjustment	34,596	34,596	34,596	-
Fund balance, end of year	<u>\$ 2,230,946</u>	<u>\$ 2,074,521</u>	<u>\$ 4,166,993</u>	<u>\$ 2,092,472</u>

See independent auditor's report.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

**CITY OF MURRAY, KENTUCKY
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE**

June 30, 2015

	Special Revenue Funds						Totals
	Municipal Aid	E-911	Murray Convention and Visitors Bureau	Drug Court Awards Fund	LGEA	Alcoholic Beverage Control	
Assets							
Cash	\$ -	\$ -	\$ 150,425	\$ -	\$ -	\$ -	\$ 150,425
Accounts receivable	47,302	-	6,501	-	-	272,887	326,690
Due from other funds	-	-	90,123	-	-	-	90,123
Restricted assets	<u>246,238</u>	<u>36,120</u>	<u>-</u>	<u>41,786</u>	<u>7,788</u>	<u>-</u>	<u>331,932</u>
Total assets	<u>\$ 293,540</u>	<u>\$ 36,120</u>	<u>\$ 247,049</u>	<u>\$ 41,786</u>	<u>\$ 7,788</u>	<u>\$ 272,887</u>	<u>\$ 899,170</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 55,103	\$ 5,902	\$ 5,177	\$ -	\$ -	\$ 1,409	\$ 67,591
Accrued wages	-	-	3,357	-	-	-	3,357
Due to other funds	<u>19,982</u>	<u>-</u>	<u>2,914</u>	<u>-</u>	<u>-</u>	<u>250,770</u>	<u>273,666</u>
Total liabilities	<u>75,085</u>	<u>5,902</u>	<u>11,448</u>	<u>-</u>	<u>-</u>	<u>252,179</u>	<u>344,614</u>
Fund Balances							
Restricted	<u>218,455</u>	<u>30,218</u>	<u>235,601</u>	<u>41,786</u>	<u>7,788</u>	<u>20,708</u>	<u>554,556</u>
Total fund balance	<u>218,455</u>	<u>30,218</u>	<u>235,601</u>	<u>41,786</u>	<u>7,788</u>	<u>20,708</u>	<u>554,556</u>
Total liabilities and fund balances	<u>\$ 293,540</u>	<u>\$ 36,120</u>	<u>\$ 247,049</u>	<u>\$ 41,786</u>	<u>\$ 7,788</u>	<u>\$ 272,887</u>	<u>\$ 899,170</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	Special Revenue Funds						Totals
	Municipal Aid	E-911	Murray Convention and Visitors Bureau	Drug Court Awards Fund	LGEA	Alcoholic Beverage Control	
Revenues							
Intergovernmental revenue	\$ 447,027	\$ 58,104	\$ -	\$ -	\$ -	\$ -	\$ 505,131
Interest earned	1,432	546	13	20	65	-	2,076
Telephone line charges	-	146,459	-	-	-	-	146,459
Transient room tax	-	-	264,769	-	-	-	264,769
Alcoholic beverage license fees	-	-	-	-	-	1,082,753	1,082,753
Court awards	-	-	-	2,701	-	-	2,701
Other	-	4,056	50,965	144	420	1,929	57,514
Total revenues	<u>448,459</u>	<u>209,165</u>	<u>315,747</u>	<u>2,865</u>	<u>485</u>	<u>1,084,682</u>	<u>2,061,403</u>
Expenditures							
Street department	427,339	-	-	-	-	-	427,339
E-911	-	87,151	-	-	-	-	87,151
Tourism commission	-	-	249,728	-	-	-	249,728
Freedom fest	-	-	43,173	-	-	-	43,173
Drug programs	-	-	-	2,935	-	-	2,935
Alcoholic beverage control	-	-	-	-	-	68,293	68,293
Debt Service							
Principal	-	-	-	-	-	32,548	32,548
Interest	-	-	-	-	-	452	452
Total expenditures	<u>427,339</u>	<u>87,151</u>	<u>292,901</u>	<u>2,935</u>	<u>-</u>	<u>101,293</u>	<u>911,619</u>
Revenue over (under) expenditures	21,120	122,014	22,846	(70)	485	983,389	1,149,784
Other Financing Sources (Uses)							
Transfers to other funds	-	(125,000)	-	-	-	(1,000,000)	(1,125,000)
Net change in fund balance	<u>21,120</u>	<u>(2,986)</u>	<u>22,846</u>	<u>(70)</u>	<u>485</u>	<u>(16,611)</u>	<u>24,784</u>
Fund balance, beginning of year	197,335	33,204	227,143	41,856	7,303	(76,797)	430,044
Prior period adjustments	-	-	(14,388)	-	-	114,116	99,728
Fund balance, beginning of year-restated	<u>197,335</u>	<u>33,204</u>	<u>212,755</u>	<u>41,856</u>	<u>7,303</u>	<u>37,319</u>	<u>529,772</u>
Fund balance, end of year	<u>\$ 218,455</u>	<u>\$ 30,218</u>	<u>\$ 235,601</u>	<u>\$ 41,786</u>	<u>\$ 7,788</u>	<u>\$ 20,708</u>	<u>\$ 554,556</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
June 30, 2015

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Assets			
Current Assets			
Accounts receivable	\$ 24,669	\$ -	\$ 24,669
Materials and supplies, at average cost	49,434	-	49,434
Total current assets	<u>74,103</u>	<u>-</u>	<u>74,103</u>
Noncurrent Assets			
Buildings	225,000	-	225,000
Machinery and equipment	120,346	-	120,346
Accumulated depreciation	(312,987)	-	(312,987)
Restricted assets	-	866,653	866,653
Total noncurrent assets	<u>32,359</u>	<u>866,653</u>	<u>899,012</u>
Total assets	<u>106,462</u>	<u>866,653</u>	<u>973,115</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	<u>21,963</u>	<u>-</u>	<u>21,963</u>
Liabilities			
Current Liabilities			
Accounts payable	25,074	336,545	361,619
Accrued salaries	5,253	-	5,253
Accrued compensated absences	32,938	-	32,938
Due to other funds	134,280	-	134,280
Accrued claims incurred but not reported	-	269,296	269,296
Total current liabilities	197,545	605,841	803,386
Long-term Liabilities			
Net pension liability	171,023	D2 -	171,023
Total liabilities	<u>368,568</u>	<u>605,841</u>	<u>974,409</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	<u>15,277</u>	<u>-</u>	<u>15,277</u>
Net Position			
Investment in capital assets	32,359	-	32,359
Restricted	-	866,653	866,653
Unrestricted	(287,779)	D1 (605,841)	(893,620)
Total net position	<u>\$ (255,420)</u>	<u>\$ 260,812</u>	<u>\$ 5,392</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
INTERNAL SERVICE FUNDS
For the Year ended June 30, 2015

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Operating Revenues			
Charges for interfund services	\$ 834,243	\$ -	\$ 834,243
Contributions to fund	-	1,627,784	1,627,784
Total operating revenues	<u>834,243</u>	<u>1,627,784</u>	<u>2,462,027</u>
Operating Expenses			
Depreciation	8,670	-	8,670
Parts rebilled	184,799	-	184,799
Petroleum products rebilled	414,398	-	414,398
Other garage expenses	216,038	-	216,038
Claims paid	-	782,498	782,498
Administrative costs	-	450,299	450,299
Wellness incentives	-	26,065	26,065
Total operating expenses	<u>823,905</u>	<u>1,258,862</u>	<u>2,082,767</u>
Operating income (loss)	<u>10,338</u>	<u>368,922</u>	<u>379,260</u>
Non-Operating Revenues (Expenses)			
Interest and dividend income	-	1,069	1,069
Gain (loss) on sale of investments	-	(728)	(728)
Total non-operating revenues (expenses)	<u>-</u>	<u>341</u>	<u>341</u>
Change in net position	<u>10,338</u>	<u>369,263</u>	<u>379,601</u>
Net position - beginning of year	(93,150)	(108,451)	(201,601)
Restatement for adoption of pension standards	<u>(172,608)</u>	<u>-</u>	<u>(172,608)</u>
Net position - beginning, restated	<u>(265,758)</u>	<u>(108,451)</u>	<u>(374,209)</u>
Net position - end of year	<u>\$ (255,420)</u>	<u>\$ 260,812</u>	<u>\$ 5,392</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2015

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Cash paid to suppliers	\$ (653,599)	\$ -	\$ (653,599)
Cash paid to employees	(186,514)	(26,065)	(212,579)
Cash received for premiums	-	1,627,784	1,627,784
Cash paid for claims	-	(837,507)	(837,507)
Cash paid for administrative expenses	-	(450,299)	(450,299)
Cash received from interfund services provided	<u>842,588</u>	<u>-</u>	<u>842,588</u>
Net cash provided by operating activities	<u>2,475</u>	<u>313,913</u>	<u>316,388</u>
Cash Flows From Capital and Related Financing Activities			
Purchases of capital assets	<u>(2,475)</u>	<u>-</u>	<u>(2,475)</u>
Cash Flows From Investing Activities			
Interest and dividends	-	1,069	1,069
Proceeds from sale or maturities of investments	<u>-</u>	<u>75,000</u>	<u>75,000</u>
Net cash provided by investing activities	<u>-</u>	<u>76,069</u>	<u>76,069</u>
Net increase in cash and cash equivalents	-	389,982	389,982
Cash and cash equivalents at beginning of year	<u>-</u>	<u>476,671</u>	<u>476,671</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 866,653</u>	<u>\$ 866,653</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income	\$ 10,338	\$ 368,922	\$ 379,260
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	8,670	-	8,670
Pension contributions paid	(21,963)	-	(21,963)
Pension expense	13,692	-	13,692
(Increase) Decrease in operating assets:			
Accounts receivable	8,345	-	8,345
Materials and supplies	10,908	-	10,908
Increase (Decrease) in operating liabilities:			
Accounts payable	3,710	3,803	7,513
Accrued expenses	5,199	(58,812)	(53,613)
Due to other funds	(36,424)	-	(36,424)
Net cash provided by operating activities	<u>\$ 2,475</u>	<u>\$ 313,913</u>	<u>\$ 316,388</u>
Noncash Pension Activity			
Pension expense	\$ 13,692	\$ -	\$ 13,692
Net pension liability	(171,023)	-	(171,023)
Deferred inflows related to pensions	(15,277)	-	(15,277)
Restatement of beginning net position for beginning pension liability	<u>172,608</u>	<u>-</u>	<u>172,608</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor / Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	Program or Award Amount	Expenditures
U.S. Department of Housing and Urban Development			
Passed Through Kentucky Department for Local Government:			
Community Development Block Grant	14.228	\$ 1,300,000	\$ 1,300,000 *
U.S. Department of Transportation			
Passed Through Kentucky Transportation Cabinet:			
Highway Planning and Construction	20.205	47,000	47,000
Highway Planning and Construction	20.205	507,999	507,999
Highway Planning and Construction TE/STP	20.205	<u>1,416,535</u>	<u>1,416,535</u>
		<u>1,971,534</u>	<u>1,971,534</u> *
State and Community Highway Safety	20.600	<u>15,887</u>	<u>15,887</u>
Total U.S. Department of Transportation		<u>1,987,421</u>	<u>1,987,421</u>
U.S. Environmental Protection Agency			
Revolving Loan Program with Kentucky Infrastructure Authority			
Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>46,000,000</u>	<u>944,325</u> *
Delta Regional Authority			
Passed Through Purchase Area Development District:			
States' Economic Development Assistance Program (SEDAP)	90.200	<u>5,460</u>	<u>5,460</u>
U.S. Federal Emergency Management Administration			
Passed Through Kentucky Emergency Management Administration:			
Public Assistance Program	97.036	<u>20,930</u>	<u>20,930</u>
Total federal awards		<u>\$ 49,313,811</u>	<u>\$ 4,258,136</u>

* major program

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Murray, Kentucky, under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Murray, Kentucky, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Murray, Kentucky.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

INTERNAL CONTROL AND COMPLIANCE SECTION

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Independent Auditor's Report

Honorable Mayor Dr. Jack Rose and
Members of the City Council
City of Murray, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Murray, Kentucky as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Murray, Kentucky's basic financial statements, and have issued our report thereon dated January 25, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Murray, Kentucky'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Murray, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Murray, Kentucky'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, at 2015-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Murray, Kentucky's financial statements are free of 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.

City of Murray's Response to Findings

City of Murray's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Murray, Kentucky
January 25, 2016

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Independent Auditor's Report

Honorable Mayor Dr. Jack Rose and
Members of the City Council
City of Murray, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Murray, Kentucky's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of City of Murray, Kentucky's major federal programs for the year ended June 30, 2015. City of Murray, Kentucky'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Murray, Kentucky'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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 City of Murray, Kentucky'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 City of Murray, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Murray, Kentucky 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, 2015.

Report on Internal Control over Compliance

Management of City of Murray, Kentucky 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 City of Murray, Kentucky'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 OMB Circular A-133, 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 City of Murray, Kentucky'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Murray, Kentucky
January 25, 2016

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified? x yes none reported

Noncompliance material to 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 auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes x no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grant
20.208	Highway Planning and Construction
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes x no

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

FINANCIAL STATEMENT FINDINGS

FINDING 2015-001

Condition: A lack of segregation of duties exists as a result of the Finance Director having custody of cash, paired with his responsibilities to record transactions and reconcile the account.

Criteria: *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, AU-C Section 315, addresses the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment, including the entity's internal control. Segregation of duties is a basic component of internal control and is referenced in the above professional standard.

Cause: Lack of qualified personnel to oversee the accounting functions.

Effect: Without proper segregation of duties, the design of controls may be deficient because individuals may be in a position to perpetrate and conceal errors or fraud when performing their job functions.

Recommendation: The City should implement appropriate segregation of duties by assigning different individuals responsibility for the custody of assets, recording of assets and authorization of transactions.

Management's Response: Management agrees with this recommendation and has implemented the necessary procedures to correct this condition.

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

PRIOR YEAR FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

FINDING 2012-001

Condition: The City does not have a system of internal control over financial reporting that would allow it to prevent, detect, and correct a significant misstatement in its financial statements, including footnote disclosures.

Recommendation: The City's finance department should develop documented procedures including a financial reporting and year end close checklist and forward those procedures to the various department managers within the City. Chief among the procedures should be a discussion of the nature of the year end close and what is needed from the various departments from an informational perspective to ensure that all consequential transactions are accurately captured in the City's financial statements in the proper period.

Current Status: This circumstance has been resolved through implementation of additional procedures related to financial period end close and through the addition of qualified personnel.

PRIOR YEAR FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING 2012-002

Condition: The City does not have a system of internal control over financial reporting that would allow it to prevent, detect, and correct a significant misstatement in its financial statements, including footnote disclosures.

Recommendation: The City's finance department should develop documented procedures including a financial reporting and year end close checklist and forward those procedures to the various department managers within the City. Chief among the procedures should be a discussion of the nature of the year end close and what is needed from the various departments from an informational perspective to ensure that all consequential transactions are accurately captured in the City's financial statements in the proper period.

Current Status: This circumstance has been resolved through implementation of additional procedures related to financial period end close and through the addition of qualified personnel.