

CITY OF MURRAY, KENTUCKY

AUDITED FINANCIAL STATEMENTS

June 30, 2016

**CITY OF MURRAY, KENTUCKY
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INTRODUCTORY SECTION

CITY OF MURRAY, KENTUCKY

June 30, 2016

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
Luke Crawford, 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
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Tennessee Society of Certified Public Accountants
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Certified Public Accountants
Offices in Tennessee & Kentucky

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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, 2016, 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 the year ended, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4–8, the budgetary comparison information on page 43, and the schedules related to pensions on pages 40–42 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, 2017, 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, 2017



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, 2016. Please read it in conjunction with the City's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The net position of all City activities are \$45,386,500. This represents an increase of \$1,346,358 3.1% over the prior year. This decrease is spread among the governmental and business-type activities. A breakout shows an increase of \$2,302,981 in business-type activities and a decrease of (\$956,623) in governmental activities.
- For all governmental activities, total expenditures of \$12,685,718 exceed total funding sources of \$11,726,181 by \$959,537. The reported unrestricted fund balance for governmental funds is (\$5,742,648), a decrease of \$1,347,352 from prior year.
- For all four business-type activities (Water and Sewer, Natural Gas, Sanitation, and Stormwater) total revenues including transfers, of \$17,636,992 exceed total expenses of \$15,334,011 by \$2,302,981. The reported unrestricted fund balance is \$3,636,338, an increase from prior year of \$1,432,935. Similar to the governmental funds, the increase in Unrestricted Fund Balance would be more significant if not for the recognition of the Pension Fund Liability in fiscal year 2016.

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 Position 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.

THE CITY AS A WHOLE

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

Table 1
Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 6,321,486	\$ 6,940,439	\$ 14,959,501	\$ 10,300,557	\$ 21,280,987	\$ 17,240,996
Capital assets	12,428,406	12,396,355	55,355,188	40,668,957	67,783,594	53,065,312
Total assets	<u>18,749,892</u>	<u>19,336,794</u>	<u>70,314,689</u>	<u>50,969,514</u>	<u>89,064,581</u>	<u>70,306,308</u>
Deferred outflows of resources	<u>3,656,742</u>	<u>1,341,134</u>	<u>1,294,376</u>	<u>556,390</u>	<u>4,951,118</u>	<u>1,897,524</u>
Long-term liabilities	16,166,935	12,498,305	25,466,549	2,000,235	41,633,484	14,498,540
Other liabilities	1,714,526	2,048,582	5,276,005	10,575,126	6,990,531	12,623,708
Total liabilities	<u>17,881,461</u>	<u>14,546,887</u>	<u>30,742,554</u>	<u>12,575,361</u>	<u>48,624,015</u>	<u>27,122,248</u>
Deferred inflows of resources	<u>5,184</u>	<u>654,429</u>	<u>-</u>	<u>387,013</u>	<u>5,184</u>	<u>1,041,442</u>
Net position:						
Net investment in capital assets	8,525,715	8,528,890	35,774,874	34,904,828	44,300,589	43,433,718
Restricted	1,736,922	1,343,018	1,455,299	1,455,299	3,192,221	2,798,317
Unrestricted	(5,742,648)	(4,395,296)	3,636,338	2,203,403	(2,106,310)	(2,191,893)
Total net position	<u>\$ 4,519,989</u>	<u>\$ 5,476,612</u>	<u>\$ 40,866,511</u>	<u>\$ 38,563,530</u>	<u>\$ 45,386,500</u>	<u>\$ 44,040,142</u>

Table 2
Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 1,865,943	\$ 2,875,759	\$ 17,478,345	\$ 18,435,821	\$ 19,344,288	\$ 21,311,580
Grants	1,892,870	4,040,801	47,000	22,191	1,939,870	4,062,992
General revenues:						
Property taxes	3,982,626	3,922,106	-	-	3,982,626	3,922,106
Franchise taxes	185,108	181,138	-	-	185,108	181,138
Payments in lieu of taxes	60,282	61,278	-	-	60,282	61,278
Bank shares	106,572	142,993	-	-	106,572	142,993
Insurance tax	1,528,886	2,041,339	-	-	1,528,886	2,041,339
Vehicle license tax	1,028,718	-	-	-	1,028,718	-
School tax	-	42,032	-	-	-	42,032
Telephone line charges	145,175	146,459	-	-	145,175	146,459
Intergovernmental	401,290	454,861	-	-	401,290	454,861
Interest and investment earnings	27,179	21,103	82,634	64,744	109,813	85,847
Gain (loss) on sale of assets	(41,206)	(21,794)	-	(17,042)	(41,206)	(38,836)
Miscellaneous	227,738	273,064	344,013	347,565	571,751	620,629
Total revenues	<u>11,411,181</u>	<u>14,181,139</u>	<u>17,951,992</u>	<u>18,853,279</u>	<u>29,363,173</u>	<u>33,034,418</u>
Expenses:						
General government	\$ 2,940,787	\$ 1,919,841	\$ -	\$ -	\$ 2,940,787	\$ 1,919,841
Community development	417,699	1,865,549	-	-	417,699	1,865,549
Police department	4,055,333	3,579,984	-	-	4,055,333	3,579,984
Fire department	3,525,559	2,966,604	-	-	3,525,559	2,966,604
Street department	976,874	1,159,440	-	-	976,874	1,159,440
Tourism	278,207	280,680	-	-	278,207	280,680
Municipal aid	207,269	122,818	-	-	207,269	122,818
E-911	142,463	75,721	-	-	142,463	75,721
Alcohol beverage control	52,192	68,293	-	-	52,192	68,293
Drug court awards	6,977	2,935	-	-	6,977	2,935
Unallocated interest expense	82,358	38,722	-	-	82,358	38,722
Water and sewer	-	-	5,901,453	5,938,661	5,901,453	5,938,661
Natural gas	-	-	7,321,095	8,734,973	7,321,095	8,734,973
Sanitation	-	-	1,921,330	2,391,847	1,921,330	2,391,847
Stormwater	-	-	190,133	180,025	190,133	180,025
Total expenses	<u>12,685,718</u>	<u>12,080,587</u>	<u>15,334,011</u>	<u>17,245,506</u>	<u>28,019,729</u>	<u>29,326,093</u>
Revenues over (under) expenses	<u>(1,274,537)</u>	<u>2,100,552</u>	<u>2,617,981</u>	<u>1,607,773</u>	<u>1,343,444</u>	<u>3,708,325</u>
Transfers in/(out), net	<u>315,000</u>	<u>315,000</u>	<u>(315,000)</u>	<u>(315,000)</u>	<u>-</u>	<u>-</u>
Change in net position	(959,537)	2,415,552	2,302,981	1,292,773	1,343,444	3,708,325
Net position - beginning	5,476,612	11,080,960	38,563,530	41,644,754	44,040,142	52,725,714
Prior period adjustments/restatements	2,914	(8,019,900)	-	(4,373,997)	2,914	(12,393,897)
Net position - beginning - restated	<u>5,479,526</u>	<u>3,061,060</u>	<u>38,563,530</u>	<u>37,270,757</u>	<u>44,043,056</u>	<u>40,331,817</u>
Net position - ending	<u>\$ 4,519,989</u>	<u>\$ 5,476,612</u>	<u>\$ 40,866,511</u>	<u>\$ 38,563,530</u>	<u>\$ 45,386,500</u>	<u>\$ 44,040,142</u>

Governmental Activities

- The largest single receipt category, property taxes, has increased \$60,520 (1.5%) to \$3,982,626.
- The largest total departmental expenditure (net of operating grants and contributions) is the Police Department - \$4,055,333. A year-over-year comparison shows an increase of \$706,973 or 17.4%.
- Interest income of \$27,179 accounts for only 0.19% of total governmental receipts.

Business-type Activities

Murray Water and Sewer System

- The Water and Sewer System's total operating revenues are \$7,708,251. When compared to the total operating expenses of \$5,739,713, an operating income of \$1,968,538 exists.
- The change in net position is an increase of \$1,872,967 when non-operating expenses of \$95,571 are considered.

Murray Natural Gas System

- The Gas System's total operating revenues are \$7,232,931. When compared to the total operating expenses of \$7,309,556, operating loss of \$76,625 exists.
- The change in net position is a decrease of \$133,890 when non-operating revenues of \$47,735 and transfers to other funds of \$105,000 are considered.

Sanitation Department

- The Sanitation Department's total operating revenues are \$2,646,039. When compared to the total operating expenses of \$2,026,330, an operating income of \$724,709 exists.
- The change in net position is an increase of \$623,140 when non-operating revenues of \$3,431 and transfer to other funds of \$105,000 are considered.

Stormwater Utility

- The Stormwater Utility's total operating revenues are \$235,137. When compared to the total operating expenses of \$190,133, operating income of \$45,004 exists.
- The change in net position is an increase of \$45,764 when non-operating revenues of \$760 is considered.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

- In Governmental Activities, property, plant and equipment increased by a total cost of \$752,220. This consists of \$3,249 of Buildings, \$480,891 in Machinery and Equipment, and \$268,080 in Infrastructure. Net of depreciation, the total Net Capital Assets - Governmental increased by \$32,051.
- In the Business-type Activities, property, plant and equipment increased by a total cost of \$16,790,962. This consists of \$9,575 in Land, \$250,255 Machinery and Equipment, \$156,427 in Drainage Improvement, and \$16,374,705 in Utility Plants. Net of depreciation, the total Net Capital Assets - Business Type increased by \$14,686,231.

Debt

- \$130,500 of new debt in General Governmental Activities has been issued during the fiscal year for police vehicles. As of June 30, 2016, the total capital debt outstanding for General Governmental Activities is \$3,549,685, which is a decrease of \$317,780 over prior year.
- \$13,964,368 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, 2016, the total debt outstanding for Business-Type Activities is \$19,580,314, which is an increase of \$13,816,185 over prior year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Preliminary data for the City in fiscal year 2017 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,

A handwritten signature in black ink, appearing to read 'Luke Crawford', written in a cursive style.

Luke Crawford
Director of Finance

BASIC FINANCIAL STATEMENTS

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash in banks and on hand	\$ 3,940,008	\$ 10,995,425	\$ 14,935,433
Receivables (net of allowance for uncollectible)			
Taxes	168,265	-	168,265
Customer	-	922,671	922,671
Grants	115,341	-	115,341
Other	459,316	2,978	462,294
Internal balances	(192,615)	192,615	-
Customer deposits	30,864	-	
Prepays	16,211	-	16,211
Materials and supplies, at average cost	47,174	422,707	469,881
Noncurrent assets			
Net capital assets	12,428,406	55,355,188	67,783,594
Restricted assets	1,736,922	2,423,105	4,160,027
Total assets	18,749,892	70,314,689	89,064,581
Deferred Outflows of Resources			
Deferred outflows related to pensions	3,656,742	1,294,376	4,951,118
Liabilities			
Accounts payable	1,483,346	4,097,145	5,580,491
Accrued salaries and wages	48,793	332,154	380,947
Unearned revenue	6,000	-	6,000
Other accrued liabilities	176,387	43,101	219,488
Customer deposits	-	602,090	602,090
Accrued interest payable	-	201,515	201,515
Noncurrent liabilities			
Net pension liability	12,100,467	5,781,707	17,882,174
Due within one year	630,734	258,304	889,038
Due in more than one year:			
Accrued compensated absences	163,777	-	163,777
Notes payable	3,271,957	18,992,538	22,264,495
Bonds payable	-	434,000	434,000
Total non-current liabilities	16,166,935	25,466,549	41,633,484
Total liabilities	17,881,461	30,742,554	48,624,015
Deferred Inflows of Resources			
Deferred inflows related to pensions	5,184	-	5,184
Net Position			
Net investment in capital assets	8,525,715	35,774,874	44,300,589
Restricted for			
CDBG housing	65,393	-	65,393
Special purposes	640,558	-	640,558
Employee benefits	1,030,971	-	1,030,971
Debt service	-	700,949	700,949
Renewal and replacement	-	425,000	425,000
Landfill postclosure reserve	-	329,350	329,350
Unrestricted	(5,742,648)	3,636,338	(2,106,310)
Total net position	\$ 4,519,989	\$ 40,866,511	\$ 45,386,500

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<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	\$ 2,940,787	\$ 490,809	\$ 1,472,440	\$ 188,278	\$ (789,260)
Community development	417,699	-	-	-	(417,699)
Police department	4,055,333	-	-	-	(4,055,333)
Fire department	3,525,559	-	-	232,152	(3,293,407)
Street department	976,874	-	-	-	(976,874)
Tourism	278,207	262,823	-	-	(15,384)
Municipal aid	207,269	-	-	-	(207,269)
E-911	142,463	-	-	-	(142,463)
Alcohol beverage control	52,192	1,112,311	-	-	1,060,119
Drug court awards	6,977	-	-	-	(6,977)
Unallocated interest expense	82,358	-	-	-	(82,358)
Total governmental activities	<u>12,685,718</u>	<u>1,865,943</u>	<u>1,472,440</u>	<u>420,430</u>	<u>(8,926,905)</u>
Business-type activities					
Water and sewer	5,901,453	7,469,694	-	47,000	1,615,241
Natural gas	7,321,095	7,185,052	-	-	(136,043)
Sanitation	1,921,330	2,588,816	-	-	667,486
Stormwater	190,133	234,783	-	-	44,650
Total business-type activities	<u>15,334,011</u>	<u>17,478,345</u>	<u>-</u>	<u>47,000</u>	<u>2,191,334</u>
Total primary government	<u>\$ 28,019,729</u>	<u>\$ 19,344,288</u>	<u>\$ 1,472,440</u>	<u>\$ 467,430</u>	<u>(6,735,571)</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, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in Net Position			
Net revenue (expense)	\$ (8,926,905)	\$ 2,191,334	\$ (6,735,571)
General Revenues			
Taxes			
Property taxes	3,982,626	-	3,982,626
Franchise taxes	185,108	-	185,108
Payments in lieu of taxes	60,282	-	60,282
Bank shares	106,572	-	106,572
Insurance tax	1,528,886	-	1,528,886
Vehicle license tax	1,028,718	-	1,028,718
Telephone line charges	145,175	-	145,175
Intergovernmental	401,290	-	401,290
Interest and investments earnings	27,179	82,634	109,813
Loss on disposal of assets	(41,206)	-	(41,206)
Miscellaneous	227,738	344,013	571,751
Transfers	315,000	(315,000)	-
Total general revenues and transfers	<u>7,967,368</u>	<u>111,647</u>	<u>8,079,015</u>
Change in net position	<u>(959,537)</u>	<u>2,302,981</u>	<u>1,343,444</u>
Net position - beginning of period	5,476,612	38,563,530	44,040,142
Prior period adjustments/restatements	2,914	-	2,914
Net position - beginning, as restated	<u>5,479,526</u>	<u>38,563,530</u>	<u>44,043,056</u>
Net position - end of period	<u>\$ 4,519,989</u>	<u>\$ 40,866,511</u>	<u>\$ 45,386,500</u>

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

CITY OF MURRAY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	Total Nonmajor Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 3,860,987	\$ 79,021	\$ 3,940,008
Receivables			
Taxes (net of allowance for uncollectibles of \$248,990)	168,265	-	168,265
Grants	99,241	-	99,241
Due from other funds	574,205	-	574,205
Other	118,202	341,114	459,316
Customer deposits		30,864	30,864
Prepays	16,211	-	16,211
Restricted assets	65,393	640,558	705,951
Total assets	\$ 4,902,504	\$ 1,091,557	\$ 5,994,061
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,035,900	\$ 96,057	\$ 1,131,957
Unearned revenue	-	6,000	6,000
Due to other funds	95,798	555,000	650,798
Accrued salaries payable	-	8,162	8,162
Total liabilities	1,131,698	665,219	1,796,917
Fund Balances			
Restricted	65,393	426,338	491,731
Unassigned	3,705,413	-	3,705,413
Total fund balances	3,770,806	426,338	4,197,144
Total liabilities and fund balances	\$ 4,902,504	\$ 1,091,557	\$ 5,994,061
<u>Reconciliation of total governmental fund balances</u>			
<u>to net position of governmental activities</u>			
Total governmental fund balances			\$ 4,197,144
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.			12,400,193
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.			194,227
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.			(12,271,575)
Net position of governmental activities			\$ 4,519,989

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, 2016

	<u>General Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 3,982,626	\$ -	\$ 3,982,626
Insurance tax	1,528,886	-	1,528,886
Vehicle license tax	1,028,718	-	1,028,718
Transient room tax	-	262,823	262,823
Franchise taxes	185,108	-	185,108
Occupational business licenses	372,406	-	372,406
Payments in lieu of taxes	60,282	-	60,282
Bank shares	106,572	-	106,572
License and permits	105,168	-	105,168
Fines and fees	13,235	-	13,235
Telephone line charges	-	145,175	145,175
Intergovernmental revenue	21,000	380,290	401,290
Interest	25,523	1,099	26,622
Alcoholic beverage fees	-	1,112,311	1,112,311
Miscellaneous income	194,737	38,780	233,517
Grant funds received	1,704,592	-	1,704,592
Total revenues	<u>9,328,853</u>	<u>1,940,478</u>	<u>11,269,331</u>
Expenditures			
Current			
General government	2,918,302	-	2,918,302
Police department	3,528,037	-	3,528,037
Fire department	3,269,297	-	3,269,297
Street department	652,348	207,269	859,617
Planning and zoning	365,667	-	365,667
Tourism commission	-	274,299	274,299
E-911	-	142,463	142,463
Freedom fest	-	26,580	26,580
Drug court awards	-	6,977	6,977
Alcoholic beverage control	-	52,192	52,192
Capital outlay	-	268,080	268,080
Debt service			
Principal	434,580	13,701	448,281
Interest	82,309	49	82,358
Total expenditures	<u>11,250,540</u>	<u>991,610</u>	<u>12,242,150</u>
Revenues over (under) expenditures	<u>(1,921,687)</u>	<u>948,868</u>	<u>(972,819)</u>
Other Financing Sources (Uses)			
Proceeds from debt	130,500	-	130,500
Transfers from other funds	1,395,000	-	1,395,000
Transfers to other funds	-	(1,080,000)	(1,080,000)
Total other financing sources (uses)	<u>1,525,500</u>	<u>(1,080,000)</u>	<u>445,500</u>
Net change in fund balance	<u>(396,187)</u>	<u>(131,132)</u>	<u>(527,319)</u>
Fund balance, beginning of year	4,166,993	554,556	4,721,549
Prior period adjustments	-	2,914	2,914
Fund balance, beginning - restated	<u>4,166,993</u>	<u>557,470</u>	<u>4,724,463</u>
Fund balance, end of year	<u>\$ 3,770,806</u>	<u>\$ 426,338</u>	<u>\$ 4,197,144</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, 2016

Net change in fund balances - total governmental funds	\$ (527,319)
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.	77,403
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.	(41,206)
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	(130,500)
Principal payments on debt	448,281
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.	1,264
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	
Pension expense	(976,295)
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>188,835</u>
Change in net position of governmental activities	<u>\$ (959,537)</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	<u>Business-type Activities</u>					<u>Governmental</u>
	<u>Water and</u>				<u>Totals</u>	<u>Internal</u>
	<u>Sewer</u>	<u>Gas</u>	<u>Sanitation</u>	<u>Stormwater</u>		<u>Service</u>
Assets						
Current Assets						
Cash and cash equivalents	\$ 3,919,371	\$ 6,570,063	\$ 409,397	\$ 96,594	\$ 10,995,425	\$ -
Receivables (net of allowances)						
Customer	450,678	269,975	187,486	14,532	922,671	-
Miscellaneous	1,762	603	364	249	2,978	16,100
Due from other funds	37,000	137,272	34,000	-	208,272	-
Materials and supplies, at average cost	250,896	171,811	-	-	422,707	47,174
Total current assets	<u>4,659,707</u>	<u>7,149,724</u>	<u>631,247</u>	<u>111,375</u>	<u>12,552,053</u>	<u>63,274</u>
Noncurrent Assets						
Utility plant in service	74,821,756	8,198,642	-	-	83,020,398	-
Land	443,847	924,980	54,524	-	1,423,351	-
Buildings	832,080	1,221,175	314,723	-	2,367,978	225,000
Machinery and equipment	457,171	400,160	-	-	857,331	122,871
Vehicles	771,076	611,752	4,289,871	35,116	5,707,815	-
Other equipment	1,527,606	1,583,475	56,421	38,809	3,206,311	-
Drainage improvement	-	-	-	2,010,203	2,010,203	-
Accumulated depreciation	(32,571,920)	(6,355,437)	(4,010,716)	(300,126)	(43,238,199)	(319,658)
Restricted assets	1,694,345	399,410	329,350	-	2,423,105	1,030,971
Total non-current assets	<u>47,975,961</u>	<u>6,984,157</u>	<u>1,034,173</u>	<u>1,784,002</u>	<u>57,778,293</u>	<u>1,059,184</u>
Total assets	<u>52,635,668</u>	<u>14,133,881</u>	<u>1,665,420</u>	<u>1,895,377</u>	<u>70,330,346</u>	<u>1,122,458</u>
Deferred Outflows of Resources						
Deferred outflows related to pensions	657,602	413,312	189,949	33,513	1,294,376	62,093
Liabilities						
Current Liabilities						
Accounts payable	3,447,370	484,450	106,099	59,226	4,097,145	351,389
Accrued salaries and wages	189,239	138,783	-	4,132	332,154	69,170
Accrued compensated absences	-	-	104,528	-	104,528	-
Accrued liabilities	20,997	16,178	5,926	-	43,101	176,387
Due to other funds	-	15,657	-	-	15,657	116,022
Current portion of bonds/notes payable	153,776	-	-	-	153,776	-
Customer deposits	223,270	378,820	-	-	602,090	-
Accrued interest						
Bonds	24,463	-	-	-	24,463	-
Customer deposits	68,041	109,011	-	-	177,052	-
Total current liabilities	<u>4,127,156</u>	<u>1,142,899</u>	<u>216,553</u>	<u>63,358</u>	<u>5,549,966</u>	<u>712,968</u>
Noncurrent Liabilities						
Net pension liability	2,937,372	1,846,177	848,461	149,697	5,781,707	277,356
Notes payable	18,992,538	-	-	-	18,992,538	-
Bonds payable	434,000	-	-	-	434,000	-
Total non-current liabilities	<u>22,363,910</u>	<u>1,846,177</u>	<u>848,461</u>	<u>149,697</u>	<u>25,208,245</u>	<u>277,356</u>
Total liabilities	<u>26,491,066</u>	<u>2,989,076</u>	<u>1,065,014</u>	<u>213,055</u>	<u>30,758,211</u>	<u>990,324</u>
Net Position						
Net investment in capital assets	26,701,302	6,584,747	704,823	1,784,002	35,774,874	28,213
Restricted						
Employee benefit trust	-	-	-	-	-	1,030,971
Debt service	700,949	-	-	-	700,949	-
Renewal and replacement	425,000	-	-	-	425,000	-
Landfill postclosure reserve	-	-	329,350	-	329,350	-
Unrestricted	(1,025,047)	4,973,370	(243,818)	(68,167)	3,636,338	(864,957)
Total net position	<u>\$ 26,802,204</u>	<u>\$ 11,558,117</u>	<u>\$ 790,355</u>	<u>\$ 1,715,835</u>	<u>\$ 40,866,511</u>	<u>\$ 194,227</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, 2016

	Business-type Activities					Governmental
	Water and Sewer	Gas	Sanitation	Stormwater	Totals	Activities Internal Service
Operating Revenues						
Charges for services	\$ 7,345,814	\$ 7,066,611	\$ 2,588,816	\$ 234,783	\$ 17,236,024	\$ -
Interfund services provided	-	-	-	-	-	644,584
Tap-on fees	123,880	118,441	-	-	242,321	-
Miscellaneous revenues	238,557	47,879	57,223	354	344,013	-
Contributions to medical insurance fund	-	-	-	-	-	1,615,738
Total operating revenues	<u>7,708,251</u>	<u>7,232,931</u>	<u>2,646,039</u>	<u>235,137</u>	<u>17,822,358</u>	<u>2,260,322</u>
Operating Expenses						
Water plant expenses	693,544	-	-	-	693,544	-
Sewer plant expenses	1,244,453	-	-	-	1,244,453	-
Water and sewer field operations	888,929	-	-	-	888,929	-
Gas purchased	-	4,459,941	-	-	4,459,941	-
Engineering operations	420,931	246,910	-	-	667,841	-
General office operations	553,226	670,546	-	-	1,223,772	-
Administrative expenses	398,579	162,669	-	-	561,248	393,655
Other operating expenses	3,844	98,907	-	-	102,751	706,305
Depreciation	1,536,207	346,300	196,528	58,758	2,137,793	6,671
Gas plant expenses	-	1,324,283	-	-	1,324,283	-
Transfer station and landfill expenses	-	-	1,724,802	-	1,724,802	-
Stormwater expenses	-	-	-	131,375	131,375	-
Medical claims paid	-	-	-	-	-	965,413
Total operating expenses	<u>5,739,713</u>	<u>7,309,556</u>	<u>1,921,330</u>	<u>190,133</u>	<u>15,160,732</u>	<u>2,072,044</u>
Operating income	<u>1,968,538</u>	<u>(76,625)</u>	<u>724,709</u>	<u>45,004</u>	<u>2,661,626</u>	<u>188,278</u>
Non-operating Revenues (Expenses)						
Interest and dividend income	29,169	49,274	3,431	760	82,634	557
Interest expense	(161,740)	(11,539)	-	-	(173,279)	-
Gain (loss) on sale of assets	-	-	-	-	-	-
Grant income	37,000	10,000	-	-	47,000	-
Total non-operating revenues (expenses)	<u>(95,571)</u>	<u>47,735</u>	<u>3,431</u>	<u>760</u>	<u>(43,645)</u>	<u>557</u>
Income before transfers	1,872,967	(28,890)	728,140	45,764	2,617,981	188,835
Operating Transfers						
From (to) other funds	(105,000)	(105,000)	(105,000)	-	(315,000)	-
Change in net position	<u>1,767,967</u>	<u>(133,890)</u>	<u>623,140</u>	<u>45,764</u>	<u>2,302,981</u>	<u>188,835</u>
Net position, beginning of year	25,034,237	11,692,007	167,215	1,670,071	38,563,530	5,392
Restatement for new pension standards	-	-	-	-	-	-
Net position, beginning of year - restated	<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>
Net position, end of year	<u>\$ 26,802,204</u>	<u>\$ 11,558,117</u>	<u>\$ 790,355</u>	<u>\$ 1,715,835</u>	<u>\$ 40,866,511</u>	<u>\$ 194,227</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, 2016

	Business-type Activities					Governmental Activities
	Water and Sewer	Gas	Sanitation	Stormwater	Totals	Internal Service
Cash Flows From Operating Activities						
Cash received from customers	\$ 7,661,893	\$ 7,273,426	\$ 2,632,346	\$ 235,406	\$ 17,803,071	\$ -
Cash paid to suppliers	1,252,089	(4,684,693)	(1,398,847)	(4,259)	(4,835,710)	(489,894)
Cash paid for employees and benefits	(2,286,773)	(1,915,143)	(613,951)	(79,911)	(4,895,778)	(185,307)
Cash received from interfund services provided	-	-	-	-	-	841,487
Cash paid for internal services used	-	-	-	(1,714)	(1,714)	-
Customer deposits received (refunded)	15,590	2,365	-	-	17,955	-
Net cash provided by operating activities	<u>6,642,799</u>	<u>675,955</u>	<u>619,548</u>	<u>149,522</u>	<u>8,087,824</u>	<u>166,286</u>
Cash Flows From Noncapital Financing Activities						
Transfers to other funds	(105,000)	(105,000)	(105,000)	-	(315,000)	-
Cash received for interfund payables	-	105,590	(108,582)	-	(2,992)	-
Non-capital state grant received	37,000	10,000	-	-	47,000	-
Net cash provided (used) by noncapital financing activities	<u>(68,000)</u>	<u>10,590</u>	<u>(213,582)</u>	<u>-</u>	<u>(270,992)</u>	<u>-</u>
Cash Flows From Capital And Related Financing Activities						
Proceeds from sale of capital assets	(112,126)	17,331	-	-	(94,795)	-
Acquisition and construction of capital assets	(16,093,730)	(540,802)	-	(156,427)	(16,790,959)	(2,525)
Proceeds from debt	13,964,368	-	-	-	13,964,368	-
Principal paid on capital debt	(148,183)	-	-	-	(148,183)	-
Interest paid on capital debt	(83,666)	-	-	-	(83,666)	-
Interest paid on customer deposits	(4,339)	(6,723)	-	-	(11,062)	-
Net cash used by capital and related financing activities	<u>(2,477,676)</u>	<u>(530,194)</u>	<u>-</u>	<u>(156,427)</u>	<u>(3,164,297)</u>	<u>(2,525)</u>
Cash Flows From Investing Activities						
Interest and dividends	29,169	49,274	3,431	760	82,634	557
Net cash provided by investing activities	<u>29,169</u>	<u>49,274</u>	<u>3,431</u>	<u>760</u>	<u>82,634</u>	<u>557</u>
Net increase (decrease) in cash and cash equivalents	4,126,292	205,625	409,397	(6,145)	4,735,169	164,318
Cash and cash equivalents at beginning 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 at end of year	<u>\$ 5,613,716</u>	<u>\$ 6,969,473</u>	<u>\$ 409,397</u>	<u>\$ 96,594</u>	<u>\$ 13,089,180</u>	<u>\$ 1,030,971</u>
Cash and cash equivalents are included on the Statement of Net Position as:						
Cash and cash equivalents	\$ 3,919,371	\$ 6,570,063	\$ 409,397	\$ 96,594	\$ 10,995,425	\$ -
Restricted assets	<u>1,694,345</u>	<u>399,410</u>	<u>-</u>	<u>-</u>	<u>2,093,755</u>	<u>1,030,971</u>
Total	<u>\$ 5,613,716</u>	<u>\$ 6,969,473</u>	<u>\$ 409,397</u>	<u>\$ 96,594</u>	<u>\$ 13,089,180</u>	<u>\$ 1,030,971</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, 2016

	<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	\$ 1,968,538	\$ (76,625)	\$ 724,709	\$ 45,004	\$ 2,661,626	\$ 188,278
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation expense	1,536,207	346,300	196,528	58,758	2,137,793	6,671
Pension contributions paid	247,498	155,556	71,490	12,613	487,157	23,370
Pension expense	(49,970)	126,594	(234,915)	(6,020)	(164,311)	27,556
(Increase) Decrease in operating assets:						
Receivables - customers	(46,496)	37,523	(13,753)	118	(22,608)	-
Receivables - other	138	2,972	60	151	3,321	8,569
Due from other funds	-	-	(34,000)	-	(34,000)	-
Inventory	49,530	85,731	-	-	135,261	2,260
Increase (Decrease) in operating liabilities:						
Accounts payable	3,003,116	38,702	(30,314)	41,991	3,053,495	(10,230)
Accrued expenses	(76,911)	(44,847)	(60,257)	(3,093)	(185,108)	(61,930)
Customer deposits	15,590	2,365	-	-	17,955	-
Due to other funds	(4,441)	1,684	-	-	(2,757)	(18,258)
Net cash provided by operating activities	<u>\$ 6,642,799</u>	<u>\$ 675,955</u>	<u>\$ 619,548</u>	<u>\$ 149,522</u>	<u>\$ 8,087,824</u>	<u>\$ 166,286</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	Pension Trust Fund	Private-Purpose Trust Fund	
	Employee Retirement	Cemetery	Totals
Assets			
Restricted assets			
Cash	\$ 7,464	\$ -	\$ 7,464
Investments, at fair value	987,124	165,880	1,153,004
Total assets	994,588	165,880	1,160,468
Liabilities			
Accounts payable	-	4,901	4,901
Total liabilities	-	4,901	4,901
Net Position			
Assets held in trust for pension benefits and other purposes	\$ 994,588	\$ 160,979	\$ 1,155,567

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, 2016

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	
	<u>Employee Retirement</u>	<u>Cemetery</u>	<u>Totals</u>
Additions			
Contributions	\$ 163,080	\$ -	\$ 163,080
Cemetery sales	-	35,772	35,772
Investment income:			
Interest and dividends	29,457	-	29,457
Gain on sale of assets	4,201	-	4,201
Total additions	<u>196,738</u>	<u>35,772</u>	<u>232,510</u>
Deductions			
Benefits	183,522	-	183,522
Administrative expenses	6,870	3,559	10,429
Repairs and maintenance	-	18,571	18,571
Total deductions	<u>190,392</u>	<u>22,130</u>	<u>212,522</u>
Changes in net position	6,346	13,642	19,988
Net position, beginning of the year	<u>988,242</u>	<u>147,337</u>	<u>1,135,579</u>
Net position, end of the year	<u>\$ 994,588</u>	<u>\$ 160,979</u>	<u>\$ 1,155,567</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, 2016

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
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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
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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 February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015, provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. There were no items that met the qualifications of being measured under this standard in the current year.

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*, effective for reporting periods beginning after December 15, 2015. The objective of this Statement was to provide financial statement users with information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients, 2) The gross dollar amount of taxes abated during the period, and 3) Commitments made by a government, other than

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

to abate taxes, as part of a tax abatement agreement. The City is currently in the information gathering phase in order to prepare the disclosure necessary in fiscal year 2017.

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.

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

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

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

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

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, 2016, 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.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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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.

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 \$323,812 exists in the Central Garage Fund as of June 30, 2016, resulting from excess expenditures incurred and the pension adjustments required by the new pension standards adopted

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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during the prior 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, 2016, all bank balances were covered by insurance or adequately collateralized. All funds are classified as public funds.

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, 2016, are summarized below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Corporate Bonds	\$ 152,718	17.4%
Mutual Funds	279,162	31.8%
FHLMC	63,615	7.2%
Common Stock	<u>382,269</u>	<u>43.6%</u>
	<u>\$ 877,764</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, 2016, 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, 2016, the City had four 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

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

September 30 and due on October 31. Property taxes receivable as of June 30, 2016, are composed of the following:

<u>Year of Levy</u>	
2015	\$ 125,694
2014	63,396
2013	37,733
2012	38,848
2011	25,828
2010	29,303
2009	23,953
2008 and prior	<u>72,500</u>
Total property taxes receivable	417,255
Less allowance for uncollectibles	<u>(248,990)</u>
Net property taxes receivable	<u>\$ 168,265</u>

D. Interfund Transactions

Interfund receivables and payables at June 30, 2016, for operating expenses were as follows:

		<u>Due from</u>	<u>Due to</u>
Governmental Funds:	General Fund	\$ 92,250	\$ 555,000
	Alcoholic Beverage Control	555,000	-
Internal Service Funds:	Central Garage	116,022	-
Proprietary Funds:	Natural Gas	-	137,272
	Water and Sewer	-	37,000
	Sanitation	-	<u>34,000</u>
Totals		<u>\$ 763,272</u>	<u>\$ 763,272</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	\$ 50,000
ABC	General	General operations	1,030,000
Water & Sewer	General	In-lieu of taxes	105,000
Gas	General	In-lieu of taxes	105,000
Sanitation	General	In-lieu of taxes	<u>105,000</u>
			<u>\$ 1,395,000</u>

E. Property, Plant, and Equipment

Capital asset activity for the year is summarized as follows:

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2016</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	3,249	-	2,231,763	3,530,426
Machinery and equipment	4,408,236	480,891	(175,344)	(1)	4,713,782
Infrastructure	10,511,094	268,080	-	-	10,779,174
Total being depreciated	<u>16,214,744</u>	<u>752,220</u>	<u>(175,344)</u>	<u>2,231,762</u>	<u>19,023,382</u>
Less accumulated depreciation:					
Buildings	789,510	78,703	-	-	868,213
Machinery and equipment	2,135,285	321,228	(134,137)	-	2,322,376
Infrastructure	3,654,296	279,030	-	-	3,933,326
Total accumulated depreciation	<u>6,579,091</u>	<u>678,961</u>	<u>(134,137)</u>	<u>-</u>	<u>7,123,915</u>
Net being depreciated	9,635,653	73,259	(41,207)	2,231,762	11,899,467
Net capital assets - governmental	<u>\$ 12,396,355</u>	<u>\$ 73,259</u>	<u>\$ (41,207)</u>	<u>\$ (1)</u>	<u>\$ 12,428,406</u>

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2016</u>
Business-type Activities					
Land	\$ 1,413,776	\$ 9,575	\$ -	\$ -	\$ 1,423,351
Buildings	2,367,978	-	-	-	2,367,978
Machinery and equipment	9,521,203	250,255	-	(1)	9,771,457
Drainage improvement	1,853,776	156,427	-	-	2,010,203
Utility plant	66,673,629	16,374,705	(27,936)	-	83,020,398
Totals at historical cost	<u>81,830,362</u>	<u>16,790,962</u>	<u>(27,936)</u>	<u>(1)</u>	<u>98,593,387</u>
Less accumulated depreciation					
Buildings	1,529,723	70,511	-	-	1,600,234
Machinery and equipment	7,401,993	513,748	-	-	7,915,741
Drainage improvement	209,048	47,348	-	-	256,396
Utility plant	32,020,641	1,506,184	(60,997)	-	33,465,828
Total accumulated depreciation	<u>41,161,405</u>	<u>2,137,791</u>	<u>(60,997)</u>	<u>-</u>	<u>43,238,199</u>
Net capital assets - business-type	<u>\$ 40,668,957</u>	<u>\$ 14,653,171</u>	<u>\$ 33,061</u>	<u>\$ (1)</u>	<u>\$ 55,355,188</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 28,940
Police department	114,946
Fire department	191,262
Street department	335,325
Tourism	1,817
Central garage	6,671
Total	<u>\$ 678,961</u>

CITY OF MURRAY, KENTUCKY
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June 30, 2016

F. Restricted Assets

Restricted assets at June 30, 2016, consisted of the following cash accounts:

General fund - CDBG Housing	\$	65,393
Special revenue funds		640,558
Employee benefits		<u>1,030,971</u>
Total governmental funds		<u>1,736,922</u>
Water and Sewer Meter deposits		300,305
Bond and interest reserve		969,040
Renewal and replacement funds		425,000
Natural Gas - Meter deposits		399,410
Sanitation - Landfill postclosure reserve		<u>329,350</u>
Total business-type funds		<u>2,423,105</u>
Total restricted assets		<u><u>\$ 4,160,027</u></u>

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, 2015, 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, 2016, the City's total covered payroll was \$7,678,583. 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

CITY OF MURRAY, KENTUCKY
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June 30, 2016

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, 2016, 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, 2016, were \$1,830,620.

Pension Liabilities. At June 30, 2016, the City reported a liability of \$7,837,990 for its proportionate share of the net pension liability of the nonhazardous plan and \$9,909,090 for the hazardous plan. The net pension liability was measured as of June 30, 2015, 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, 2015, the City's proportion was 0.182299 percent for the nonhazardous plan and 0.00645499 percent for the hazardous plan.

Pension Expense. For the year ended June 30, 2015, the City recognized pension expense of \$881,836 for the nonhazardous plan and \$952,212 for the hazardous plan.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual Experience		
Nonhazardous plan	\$ 65,137	\$ -
Hazardous plan	215,220	-
Net difference between projected and actual earnings on Plan investments:		
Nonhazardous plan	70,261	-
Hazardous plan	62,228	-
Change of Assumptions		
Nonhazardous plan	790,376	-
Hazardous plan	856,307	-
Changes in proportion and differences between employer contributions and proportionate share of contributions		
Nonhazardous plan	168,534	-
Hazardous plan	953,761	-
Contributions subsequent to the measurement date of June 30, 2015		
Nonhazardous plan	751,052	-
Hazardous plan	<u>1,079,567</u>	<u>-</u>
Total	<u>\$ 4,732,086</u>	<u>\$ -</u>

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, 2017. 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:	
2017	\$795,456
2018	795,456
2019	795,456
2020	795,456

Actuarial Assumptions. The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
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CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of Plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

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 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return 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>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return	10%	3.50%
Real Estate	5%	4.50%
Absolute Return	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	100%	

Discount Rate. The discount rate used to measure the total pension liability was 7.50 percent. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2017. The projection of cash flows used to

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability	
		Nonhazardous Plan	Hazardous Plan
1% decrease	6.50%	\$ 10,006,170	\$ 126,840
Current discount rate	7.50%	\$ 7,837,992	\$ 99,091
1% increase	8.50%	\$ 5,981,139	\$ 76,101

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, 2015.

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, 2016, were \$12,421.

Pension Liabilities. At June 30, 2015, the Murray Convention and Visitors Bureau reported a liability of \$135,095 for its proportionate share of the net pension liability of the plan. The net pension liability was measured as of June 30, 2015, 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, 2015, the Murray Convention and Visitors Bureau's proportion was 0.003142 percent.

Pension Expense. For the year ended June 30, 2016, the Murray Convention and Visitors Bureau recognized pension expense of \$15,907.

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:

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	1,123	-
Net difference between projected and actual earnings on Plan investments:	1,211	5,184
Change of Assumptions	12,780	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,775	-
Contributions subsequent to the measurement date	12,421	-
Total	\$ 29,310	\$ 5,184

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, 2017. 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:

2017	\$3,038
2018	3,038
2019	5,629

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 \$994,588 at June 30, 2016. 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.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

Notes and bonds payable at June 30, 2016, are summarized, as follows:

Governmental Activities

BB&T notes payable – due in scheduled maturities	
through January 13, 2023	\$ 307,991
TMB note payable –	
monthly payments of \$12,355 through July 23, 2035,	
including interest at 1.75%	2,403,672
Community Financial Services Bank note payable –	
monthly payments of \$8,524 through May 5, 2024,	
including interest at 2.78%	718,146
Community Financial Services Bank note payable –	
through January 13, 2019	<u>119,876</u>
	<u>\$ 3,549,685</u>

Water and Sewer Fund

Kentucky Area Development Districts Financing Trust –	
due in scheduled maturities through May 20, 2023	
at 1.5% to 4.7%	\$ 670,000
Kentucky Infrastructure Authority Revolving Loan Fund –	
due in scheduled maturities through June 1, 2029, at 1%	825,594
Kentucky Infrastructure Authority Revolving Loan Fund –	
due in scheduled maturities through 2033 at 1%	17,641,720
2001 Revenue Bonds – due in scheduled maturities	
through January 1, 2041 at 4.75%	<u>443,000</u>
	<u>\$ 19,580,314</u>

The annual debt service requirements to maturity for the above long-term debt as of June 30, 2016, are presented below:

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Year	Governmental Activities		Business-type Activities		
	Ending	Principal	Interest	Principal	Interest
2017	\$	277,792	\$ 68,225	\$ 153,776	\$ 61,411
2018		283,719	62,300	155,375	56,694
2019		278,658	56,193	160,981	51,923
2020		250,816	50,508	1,835,032	198,511
2021		256,444	44,881	2,183,122	621,885
2022-2026		958,252	148,014	10,600,528	623,368
2027-2031		660,428	80,850	4,248,500	133,570
2032-2036		583,576	21,506	108,000	47,928
2037-2041		-	-	135,000	19,855
	\$	<u>3,549,685</u>	<u>\$ 532,477</u>	<u>\$ 19,580,314</u>	<u>\$ 1,815,145</u>

The following is a summary of the City's long-term liability activity for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Payments	Balance June 30, 2016	Current Portion
Governmental activities					
US Bank	161,279	-	161,279	-	-
BB&T - fire truck	351,706	-	43,715	307,991	44,655
BB&T - police vehicles	55,589	-	55,589	-	-
TMB	2,500,000	-	96,328	2,403,672	107,047
Community Financial Services	798,891	130,500	91,370	838,021	126,025
Compensated absences	496,994	100,000	83,256	513,738	353,007
Total	<u>4,364,459</u>	<u>230,500</u>	<u>531,537</u>	<u>4,063,422</u>	<u>630,734</u>
Business-type activities					
KADD	750,000	-	80,000	670,000	85,000
KIA	884,777		59,183	825,594	59,776
KIA 12/12	3,677,352	13,964,368	-	17,641,720	-
2001 Revenue Bonds	452,000	-	9,000	443,000	9,000
Compensated absences	477,137	-	32,785	444,352	104,528
Total	<u>6,241,266</u>	<u>13,964,368</u>	<u>180,968</u>	<u>20,024,666</u>	<u>258,304</u>

I. Conduit Debt Obligations

As of June 30, 2016, the City of Murray had the following bond issues outstanding related to the acquisition and construction of facilities:

Murray State University Wellness & Recreation	\$ 8,125,000
Murray Calloway County Hospital	<u>14,555,000</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Total principal amounts payable \$ 22,680,000

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, 2016 was estimated using information provided by the third-party administrators.

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, 2016, 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. Unearned Revenue

Briggs and Stratton Corporation agreed to contribute \$12,000 to the Murray Convention and Visitors Bureau for the purpose of advertising and sponsoring the Freedom Fest (July 4th Celebration) fireworks. Briggs and Stratton Corporation actually contributed \$18,000 and elected to defer the additional \$6,000 to the same cause for the following year. This \$6,000 will be earned in the following year.

NOTE 4 – PRIOR PERIOD ADJUSTMENT

Beginning fund balance/net position for June 30, 2015 has been adjusted for a prior period misstatement. In the prior period, there was an “overpayment” from the City of Murray for \$2,914 that was recorded on the Murray Convention and Visitors Bureau’s financial statements. These revenues should have been recognized in the prior period, the year in which they were received from the City of Murray.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MURRAY, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

**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,

	2015
City of Murray's proportion of the collective net pension liability	.182299%
City of Murray's proportionate share of the net pension liability	\$ 7,837,990
City of Murray's covered employee payroll	\$ 4,218,402
City of Murray's proportionate share of the net pension liability as a percentage of its covered employee payroll	185.80%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

Hazardous Plan

Fiscal Years Ending June 30,

	2015
City of Murray's proportion of the collective net pension liability	.645499%
City of Murray's proportionate share of the net pension liability	\$ 9,909,090
City of Murray's covered employee payroll	\$ 3,419,071
City of Murray's proportionate share of the net pension liability as a percentage of its covered employee payroll	289.82%
Plan fiduciary net position as a percentage of the total pension liability	63.46%

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

Fiscal Years Ending June 30,

	2015
Bureau's proportion of the collective net pension liability	.003142%
Bureau's proportionate share of the net pension liability	\$ 135,095
Bureau's covered employee payroll	\$ 73,309
Bureau's proportionate share of the net pension liability as a percentage of its covered employee payroll	184.28%
Plan fiduciary net position as a percentage of the total pension liability	59.97%

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, 2016

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	\$ 9,381
Contributions in relation to the actuarially determined contribution	13,318	9,381
Contribution deficiency (excess)	\$ -	\$ -
Bureau's covered employee payroll	\$ 70,506	\$ 73,309
Bureau's contributions as a percentage of covered employee payroll	18.89%	12.80%

See independent auditor's report

CITY OF MURRAY, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

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:

2015 –

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

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

See independent auditor's report

SUPPLEMENTARY AND OTHER INFORMATION SECTION

CITY OF MURRAY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
Revenues				
Property taxes	\$ 3,836,000	\$ 3,836,000	\$ 3,982,626	\$ 146,626
Insurance tax	1,800,000	2,000,000	1,528,886	(471,114)
Vehicle license tax	1,020,000	1,220,000	1,028,718	(191,282)
Franchise taxes	100,000	100,000	185,108	85,108
Occupational business licenses	290,000	290,000	372,406	82,406
Payments in lieu of taxes	162,500	162,500	60,282	(102,218)
Bank shares	145,000	145,000	106,572	(38,428)
Licenses and permits	67,500	67,500	105,168	37,668
Fines and fees	11,000	11,000	13,235	2,235
Intergovernmental revenue	37,000	37,000	21,000	(16,000)
Interest	27,500	27,500	25,523	(1,977)
Miscellaneous income	279,500	279,500	194,737	(84,763)
Grant funds received	4,679,201	5,041,853	1,704,592	(3,337,261)
Transient room tax	245,000	245,000	-	(245,000)
Total revenues	<u>12,700,201</u>	<u>13,462,853</u>	<u>9,328,853</u>	<u>(4,134,000)</u>
Expenditures				
General government	6,152,951	6,441,624	2,918,302	3,523,322
Police department	3,455,025	3,787,487	3,528,037	259,450
Fire department	3,517,050	3,990,510	3,269,297	721,213
Street department	842,850	842,850	652,348	190,502
Planning and zoning	428,000	428,000	365,667	62,333
Debt service				
Principal	-	-	434,580	(434,580)
Interest	-	-	82,309	(82,309)
Total expenditures	<u>14,395,876</u>	<u>15,490,471</u>	<u>11,250,540</u>	<u>4,239,931</u>
Revenues over (under) expenditures	<u>(1,695,675)</u>	<u>(2,027,618)</u>	<u>(1,921,687)</u>	<u>105,931</u>
Other Financing Sources (Uses)				
Transfers from other funds	1,345,000	1,345,000	1,395,000	50,000
Proceeds from debt	-	-	130,500	130,500
Total other financing sources (uses)	<u>1,345,000</u>	<u>1,345,000</u>	<u>1,525,500</u>	<u>180,500</u>
Net change in fund balance	(350,675)	(682,618)	(396,187)	286,431
Fund balance, beginning of year	4,213,600	4,213,600	4,166,993	(46,607)
Fund balance, end of year	<u>\$ 3,862,925</u>	<u>\$ 3,530,982</u>	<u>\$ 3,770,806</u>	<u>\$ 239,824</u>

See independent auditor's report.

**CITY OF MURRAY, KENTUCKY
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2016**

	Special Revenue Funds						Totals
	Municipal Aid	E-911	Murray Convention and Visitors Bureau	Drug Court Awards Fund	LGEA	Alcoholic Beverage Control	
Assets							
Cash	\$ -	\$ -	\$ 79,021	\$ -	\$ -	\$ -	\$ 79,021
Accounts receivable	-	70,000	9,359	-	-	261,755	341,114
Customer deposit	-	-	30,864	-	-	-	30,864
Restricted assets	<u>70,316</u>	<u>55,568</u>	<u>131,347</u>	<u>34,828</u>	<u>8,364</u>	<u>340,135</u>	<u>640,558</u>
Total assets	<u>\$ 70,316</u>	<u>\$ 125,568</u>	<u>\$ 250,591</u>	<u>\$ 34,828</u>	<u>\$ 8,364</u>	<u>\$ 601,890</u>	<u>\$ 1,091,557</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 23,963	\$ 72,094	\$ -	\$ -	\$ -	\$ -	\$ 96,057
Unearned revenue	-	-	6,000	-	-	-	6,000
Accrued wages	-	-	8,162	-	-	-	8,162
Due to other funds	-	-	-	-	-	555,000	555,000
Total liabilities	<u>23,963</u>	<u>72,094</u>	<u>14,162</u>	<u>-</u>	<u>-</u>	<u>555,000</u>	<u>665,219</u>
Fund Balances							
Restricted	<u>46,353</u>	<u>53,474</u>	<u>236,429</u>	<u>34,828</u>	<u>8,364</u>	<u>46,890</u>	<u>426,338</u>
Total fund balance	<u>46,353</u>	<u>53,474</u>	<u>236,429</u>	<u>34,828</u>	<u>8,364</u>	<u>46,890</u>	<u>426,338</u>
Total liabilities and fund balances	<u>\$ 70,316</u>	<u>\$ 125,568</u>	<u>\$ 250,591</u>	<u>\$ 34,828</u>	<u>\$ 8,364</u>	<u>\$ 601,890</u>	<u>\$ 1,091,557</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, 2016

	Special Revenue Funds						Totals
	Municipal Aid	E-911	Murray Convention and Visitors Bureau	Drug Court Awards Fund	LGEA	Alcoholic Beverage Control	
Revenues							
Intergovernmental revenue	\$ 302,790	\$ 70,000	\$ -	\$ -	\$ -	\$ 7,500	\$ 380,290
Interest earned	457	544	13	19	66	-	1,099
Telephone line charges	-	145,175	-	-	-	-	145,175
Transient room tax	-	-	262,823	-	-	-	262,823
Alcoholic beverage license fees	-	-	-	-	-	1,112,311	1,112,311
Other	-	-	35,957	-	510	2,313	38,780
Total revenues	<u>303,247</u>	<u>215,719</u>	<u>298,793</u>	<u>19</u>	<u>576</u>	<u>1,122,124</u>	<u>1,940,478</u>
Expenditures							
Street department	475,349	-	-	-	-	-	475,349
E-911	-	142,463	-	-	-	-	142,463
Tourism commission	-	-	274,299	-	-	-	274,299
Freedom fest	-	-	26,580	-	-	-	26,580
Drug programs	-	-	-	6,977	-	-	6,977
Alcoholic beverage control	-	-	-	-	-	52,192	52,192
Debt Service							
Principal	-	-	-	-	-	13,701	13,701
Interest	-	-	-	-	-	49	49
Total expenditures	<u>475,349</u>	<u>142,463</u>	<u>300,879</u>	<u>6,977</u>	<u>-</u>	<u>65,942</u>	<u>991,610</u>
Revenue over (under) expenditures	(172,102)	73,256	(2,086)	(6,958)	576	1,056,182	948,868
Other Financing Sources (Uses)							
Transfers to other funds	-	(50,000)	-	-	-	(1,030,000)	(1,080,000)
Net change in fund balance	<u>(172,102)</u>	<u>23,256</u>	<u>(2,086)</u>	<u>(6,958)</u>	<u>576</u>	<u>26,182</u>	<u>(131,132)</u>
Fund balance, beginning of year	218,455	30,218	235,601	41,786	7,788	20,708	554,556
Prior period adjustments	-	-	2,914	-	-	-	2,914
Fund balance, beginning of year-restated	<u>218,455</u>	<u>30,218</u>	<u>238,515</u>	<u>41,786</u>	<u>7,788</u>	<u>20,708</u>	<u>557,470</u>
Fund balance, end of year	<u>\$ 46,353</u>	<u>\$ 53,474</u>	<u>\$ 236,429</u>	<u>\$ 34,828</u>	<u>\$ 8,364</u>	<u>\$ 46,890</u>	<u>\$ 426,338</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
June 30, 2016

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Assets			
Current Assets			
Accounts receivable	\$ 16,100	\$ -	\$ 16,100
Materials and supplies, at average cost	47,174	-	47,174
Total current assets	<u>63,274</u>	<u>-</u>	<u>63,274</u>
Noncurrent Assets			
Buildings	225,000	-	225,000
Machinery and equipment	122,871	-	122,871
Accumulated depreciation	(319,658)	-	(319,658)
Restricted assets	-	1,030,971	1,030,971
Total noncurrent assets	<u>28,213</u>	<u>1,030,971</u>	<u>1,059,184</u>
Total assets	<u>91,487</u>	<u>1,030,971</u>	<u>1,122,458</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	<u>62,093</u>	<u>-</u>	<u>62,093</u>
Liabilities			
Current Liabilities			
Accounts payable	14,844	336,545	351,389
Accrued salaries	69,170	-	69,170
Due to other funds	116,022	-	116,022
Accrued claims incurred but not reported	-	176,387	176,387
Total current liabilities	<u>200,036</u>	<u>512,932</u>	<u>712,968</u>
Long-term Liabilities			
Net pension liability	<u>277,356</u>	<u>-</u>	<u>277,356</u>
Total liabilities	<u>477,392</u>	<u>512,932</u>	<u>990,324</u>
Net Position			
Investment in capital assets	28,213	-	28,213
Restricted	-	1,030,971	1,030,971
Unrestricted	<u>(352,025)</u>	<u>(512,932)</u>	<u>(864,957)</u>
Total net position	<u>\$ (323,812)</u>	<u>\$ 518,039</u>	<u>\$ 194,227</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, 2016

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Operating Revenues			
Charges for interfund services	\$ 644,584	\$ -	\$ 644,584
Contributions to fund	-	1,615,738	1,615,738
Total operating revenues	<u>644,584</u>	<u>1,615,738</u>	<u>2,260,322</u>
Operating Expenses			
Depreciation	6,671	-	6,671
Parts rebilled	158,114	-	158,114
Petroleum products rebilled	249,265	-	249,265
Other garage expenses	298,926	-	298,926
Claims paid	-	965,413	965,413
Administrative costs	-	369,082	369,082
Wellness incentives	-	24,573	24,573
Total operating expenses	<u>712,976</u>	<u>1,359,068</u>	<u>2,072,044</u>
Operating income (loss)	<u>(68,392)</u>	<u>256,670</u>	<u>188,278</u>
Non-Operating Revenues (Expenses)			
Interest and dividend income	-	557	557
Change in net position	<u>(68,392)</u>	<u>257,227</u>	<u>188,835</u>
Net position - beginning of year	(255,420)	260,812	5,392
Restatement for adoption of pension standards	-	-	-
Net position - beginning, restated	<u>(255,420)</u>	<u>260,812</u>	<u>5,392</u>
Net position - end of year	<u>\$ (323,812)</u>	<u>\$ 518,039</u>	<u>\$ 194,227</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2016

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Cash paid to suppliers	\$ (489,894)	\$ -	\$ (489,894)
Cash paid to employees	(160,734)	(24,573)	(185,307)
Cash received for premiums	-	1,615,738	1,615,738
Cash paid for claims	-	(1,058,322)	(1,058,322)
Cash paid for administrative expenses	-	(369,082)	(369,082)
Cash received from interfund services provided	653,153	-	653,153
Net cash provided by operating activities	<u>2,525</u>	<u>163,761</u>	<u>166,286</u>
Cash Flows From Capital and Related Financing Activities			
Purchases of capital assets	<u>(2,525)</u>	<u>-</u>	<u>(2,525)</u>
Cash Flows From Investing Activities			
Interest and dividends	<u>-</u>	<u>557</u>	<u>557</u>
Net cash provided by investing activities	<u>-</u>	<u>557</u>	<u>557</u>
Net increase in cash and cash equivalents	-	164,318	164,318
Cash and cash equivalents at beginning of year	<u>-</u>	<u>866,653</u>	<u>866,653</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 1,030,971</u>	<u>\$ 1,030,971</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income	\$ (68,392)	\$ 256,670	\$ 188,278
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	6,671	-	6,671
Pension contributions paid	23,370	-	23,370
Pension expense	27,556	-	27,556
(Increase) Decrease in operating assets:			
Accounts receivable	8,569	-	8,569
Materials and supplies	2,260	-	2,260
Increase (Decrease) in operating liabilities:			
Accounts payable	(10,230)	-	(10,230)
Accrued expenses	30,979	(92,909)	(61,930)
Due to other funds	(18,258)	-	(18,258)
Net cash provided by operating activities	<u>\$ 2,525</u>	<u>\$ 163,761</u>	<u>\$ 166,286</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

Federal Grantor / Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	Program or Award Amount	Expenditures
U.S. Department of Transportation			
Passed Through Kentucky Transportation Cabinet:			
Highway Planning and Construction	20.205	<u>2,660,000</u>	<u>110,662</u>
State and Community Highway Safety	20.600	<u>8,943</u>	<u>8,943</u>
Total U.S. Department of Transportation		<u>2,668,943</u>	<u>119,605</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>5,761,824</u> *
Delta Regional Authority			
Passed Through Purchase Area Development District:			
States' Economic Development Assistance Program (SEDAP)	90.200	<u>89,001</u>	<u>84,551</u>
U.S. Federal Emergency Management Administration			
Passed Through Kentucky Emergency Management Administration:			
Public Assistance Program	97.044	<u>262,858</u>	<u>232,152</u>
Total federal awards		<u>\$ 49,020,802</u>	<u>\$ 6,198,132</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, 2016

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, 2016. 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

Members of:

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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, 2016, 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, 2017.

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 not identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2016-001 and 2016-002)

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 an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 2016-003.

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, 2017

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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, 2016. 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, 2016.

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, 2017

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unmodified

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

Noncompliance material to financial statements noted? x yes 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
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

FINANCIAL STATEMENT FINDINGS

2016-001 Management Oversight of Financial Reporting (Material Weakness)

Condition: The Murray Convention and Visitor's Bureau lacks management oversight over financial reporting which includes the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). In addition, several adjusting and reclassification entries were required for the financial statements to be presented in conformity with GAAP.

Effect: The financial statements and footnote disclosures may not be in conformity with GAAP.

Criteria: Proper management oversight over financial reporting should include the preparation of the financial statements and footnote disclosures in conformity with GAAP.

Recommendation: We recommend that management implement review procedures to ensure that the financial statements are prepared in conformity with generally accepted accounting principles.

Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance to prepare financial statements and footnotes in accordance with generally accepted accounting principles prior to the independent audit. However, we believe that our knowledge and experience enables us to review the report and understand it fully. We take full responsibility for the financial statements and all adjusting and reclassification journal entries. Management will work toward minimizing the adjusting entries necessary for next year's audit.

2016-002 Lack of Segregation of Duties (Material Weakness)

Condition: Due to the limited number of personnel employed by the Murray Convention and Visitor's Bureau, the same individual regularly performs several functions, which ideally should be performed by different individuals. Such functions include, but are not limited to, issuing checks, handling cash receipts, processing customer accounts receivable, and reporting transactions.

Effect: The lack of segregation of duties could lead to potential errors or fraud.

Criteria: Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets is intended to reduce opportunities for errors or fraud.

Recommendation: It may be impractical, given the present staff level of the Bureau, to overcome this weakness. However, management and the board should be aware of the situation and attempt, when possible to have persons on the board involved in the functions of Bureau, such as requiring a board member signature on all checks, approval of invoices, and review of all bank reconciliations. These measures, would not themselves correct the situation, but would possibly mitigate, to a certain extent, the potential exposure.

Response: Management is aware of the absence of proper segregation of accounting functions, but it is cost-prohibitive to fund additional personnel. Management and the board will continue to be

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

involved in the daily functions of the Bureau. Specific board members will sign all checks, approve all invoices, and review all bank reconciliations.

2016-003 Budgetary Noncompliance

Condition: The Murray Convention and Visitor's Bureau has more expenditures than was allowed in the annual budget, which is a noncompliance with the Kentucky Revised Statute and the City of Murray Ordinance. Kentucky Revised Statute states that no moneys shall be expensed from any source except as provided in the originally adopted or subsequently amended budget. The City of Murray Ordinance regarding the Bureau states that the Bureau shall not expend, obligate itself to expend, or authorize the expenditures of any amount in excess of its budget as approved and adopted by the (City) Council as part of the official annual budget of the City, without prior approval of the City Council.

Effect: There is a noncompliance with the Kentucky Revised Statute and the City of Murray Ordinance.

Criteria: The Bureau may not expend more than listed in the final budgeted totals.

Recommendation: We recommend that the board and management revisit the budget near year-end and make appropriate adjustments to an amended budget to present to the Murray City Council. By having an approved amended budget, the Bureau will remain in compliance with the Kentucky Revised Statute and the Murray City Ordinance.

Response: Management accepts the finding of an overage in the expenditures compared to the budgeted amounts. Management and the board will monitor the budget more closely throughout the year, specifically near year-end, and will propose amendments as needed to be compliant.

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

PRIOR YEAR FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

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.

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.

Current Status: This circumstance has been resolved through implementation of additional procedures related to reconciliations of accounts.

PRIOR YEAR FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.