

CITY OF MURRAY, KENTUCKY  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2017

CITY OF MURRAY, KENTUCY  
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City Council and Administration Staff

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## INTRODUCTORY SECTION

**CITY OF MURRAY, KENTUCKY**

June 30, 2017

**CITY COUNCIL**

Jeremy Bell  
Robert Billington  
Johnny Bohannon  
Linda Cherry  
Danny Hudspeth  
Dan Miller  
Jason Pittman  
Pat Scott  
John Mark Roberts  
Jane Shoemaker  
Wesley Bowlin  
Burton Young

**ADMINISTRATIVE STAFF**

Dr. Jack Rose, Mayor  
Kimberly Wyatt, Director of Finance

## FINANCIAL SECTION

## 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 the City of Murray, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Murray, Kentucky'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 June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7, the budgetary comparison information on page 42, and the schedules related to pensions on pages 38-40 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, Kentucky's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The 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 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 11, 2018, 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 the City of Murray, Kentucky's internal control over financial reporting and compliance.

*Romaine + Associates, PLLC*

Mayfield, Kentucky  
January 11, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## 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, 2017. 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 is \$49,616,598. This represents an increase of \$4,230,098 (9.3%) over the prior year. This increase is spread among the governmental and business-type activities. A breakout shows 62% (\$2,617,440) in business-type activities and the remaining 38% (\$1,612,658) in governmental activities.
- In the General Fund, revenues and other financing sources exceed expenditures and other uses by \$1,833,538, increasing the fund balance to \$6,076,973 as shown in the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds page 13.
- All four business-type activities (Water and Sewer, Natural Gas, Sanitation, and Stormwater Utility) had a combined, positive net income totaling \$2,617,382 as shown in the Statement of Revenues, Expenditures, and Changes in Fund Balances Proprietary Funds page 17.

### USING THIS ANNUAL AUDIT

This annual financial report consists of a series of financial statements. The Statement of Net Position (page 9) and the Statement of Activities (pages 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 provide an overview of 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 4. 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, page 9 and the Statement of Activities, page 10 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. The City's net assets (what the citizens own) and liabilities (what the citizens owe) may serve as a 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. Other non-financial factors should be considered, 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 Position and the Statement of Activities, the City is separated 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**

### **Governmental Activities**

- A year-over-year comparison shows General Fund revenue increased \$468,455 (4.9%) while total Governmental Funds revenue increased \$415,087 (3.6%).
- The largest single receipt category, property taxes, increased \$150,767 (3.79%) to \$4,133,393. This increase was due, in large part, to increases in assessments and additions to the property tax roll.
- General Fund expenditures decreased \$1,921,770 (16.7%) while total Governmental Fund expenditures decreased \$2,213,944 (17.7%).
- Grant receipts for the year are \$667,446- a 61% decrease from the prior year.

### **Business-type Activities**

#### **Murray Water and Sewer System**

- The Water and Sewer System's total operating revenues are \$8,953,835. When compared to the total operating expenses of \$6,217,081, an operating income of \$2,736,754 exists.
- The change in net position is an increase of \$2,301,720 when non-operating expenses of \$330,034 and transfers to other funds of \$105,000 are considered.

#### **Murray Natural Gas System**

- The Gas System's total operating revenues are \$7,781,695. When compared to the total operating expenses of \$7,608,980, operating income of \$172,715 exists.
- The change in net position is an increase of \$109,679 when non-operating revenues of \$41,964 and transfers to other funds of \$105,000 are considered.

#### **Sanitation Department**

- The City entered into an agreement with Republic Services Waste Solutions on October 1, 2016 to provide refuse collection services within the City limits. The City still owns, maintains control of, and operates the Transfer Station.
- The Sanitation Department's total operating revenues are \$3,083,060. When compared to the total operating expenses of \$2,451,565, an operating income of \$631,495 exists.
- The change in net position is an increase of \$210,185 when non-operating revenue of \$6,727, loss on sale of assets of \$323,037 and transfers to other funds of \$105,000 are considered.

#### **Stormwater Utility**

- The Stormwater Utility's total operating revenues are \$237,060. When compared to the total operating expenses of \$241,624, operating loss of \$4,564 exists.
- The change in net position is a loss of \$4,202 when non-operating revenues of \$362 is considered. This loss is largely due to the recordation of \$18,498 for retirement expense required to disclose a proportional share of CERS pension liability, as discussed in the next section of this discussion.

## City Pension Costs

The City of Murray participates in the State's CERS retirement program. Under the County Employee Retirement System (CERS) plan, employee contributions are deposited into two plans- nonhazardous and hazardous. In FY15 the City implemented Government Accounting Standards Board (GASB) Statement No. 68, which requires that the City report and fully disclose its share of net pension liability. CERS has assigned to the City its proportional share of the net pension's liability. "The net pension liability is 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." As of June 30, 2017, the City's proportional share of net pension liability is \$19,394,505, an increase of 9.3% (\$1,647,425) from last year. While the City reports positive balances of total net position for Governmental and Business-type Activities, disclosing the City's net liability in the County Employee Retirement System has been a driving factor of a negative unrestricted fund balance of \$3,913,541 for governmental funds, as can be seen in the Statement of Net Position page 9.

The following tables provide a summary of the City's year-over-year comparison of retirement costs:

	<b>FYE 6/30/17</b>	<b>FYE 6/30/16</b>
<b><u>Net Pension Liabilities</u></b>		
Nonhazardous	\$ 8,378,483	\$7,837 990
Hazardous	<u>\$11,016,022</u>	<u>\$9,909,090</u>
<b>Total</b>	<b>\$19,394,505</b>	<b>\$17,747,080</b>
<b><u>Pension Exnenses</u></b>		
Nonhazardous	\$1 141 560	\$881,836
Hazardous	<u>\$1, 246. 840</u>	<u>\$952,212</u>
<b>Total</b>	<b>\$2,388,400</b>	<b>\$1,834,048</b>

Currently the City of Murray contributes to the two CERS plans based on employees retirement wages. As can be seen below, the City anticipates significant increases in the amount of employee retirement costs in future years, based on contribution rates.

### **Retirement Contribution Rates**

	<b>Nonhazardous</b>	<b>Hazardous</b>
FY15-16	17.06%	32.95%
FY16-17	18.68%	31.06%
FY17-18	19.18%	31.55%
FY18-19	28.05%	47.86%

A full description of the retirement plans and the associated pension assumptions and liabilities are discussed in greater detail at Note 3-Detail Notes, part G. Retirement Plan, pages 30-35.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

- In Governmental Activities, property, plant and equipment increased by a total cost of \$565,641. This consists of \$46,206 of Construction in Process, \$241,038 in Machinery and Equipment, and \$278,397 in Infrastructure. Net of depreciation, the total Net Capital Assets - Governmental increased by \$103,634.
- In the Business-type Activities, property, plant and equipment increased by a total cost of \$23,736,649. This consists of \$1,026,725 of Construction in Process, \$27,837 in Buildings, \$506,803 Machinery and Equipment, \$91,019 in Drainage Improvement, and \$22,084,265 in Utility Plants. Net of depreciation, the total Net Capital Assets - Business Type increased by \$21,319,504.

### **Debt**

- No new debt in General Governmental Activities has been issued during the fiscal year. As of June 30, 2017, the total capital debt outstanding for General Governmental Activities is \$3,282,751, which is a decrease of \$266,933 over prior year.
- \$22,512,754 of new debt in Business-type Activities has been issued during the fiscal year for engineering, construction, and other services related to the Waste Water Treatment Plant improvements. As of June 30, 2017, the total debt outstanding for Business-Type Activities is \$41,939,292, which is an increase of \$22,358,978 over the prior year.

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

Preliminary data for the City in fiscal year 2018 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 500 Main Street, Murray, Kentucky, 42071.

Respectfully submitted,

Kim Wyatt  
Director of Finance

## BASIC FINANCIAL STATEMENTS

**CITY OF MURRAY, KENTUCKY**  
**STATEMENT OF NET POSITION**  
June 30, 2017

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash in banks and on hand	\$ 5,892,181	\$ 11,487,908	\$ 17,380,089
Receivables (net of allowance for uncollectible)			
Taxes	145,142		145,142
Customer		1,102,067	1,102,067
Other	961,764	4,390	966,154
Internal balances	(169,602)	169,602	
Materials and supplies, at average cost	45,930	369,786	415,716
Noncurrent assets			
Net capital assets	12,324,772	76,674,703	88,999,475
Restricted assets	1,279,313	4,299,504	5,578,817
Total assets	<u>20,479,500</u>	<u>94,107,960</u>	<u>114,587,460</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows related to pensions	4,084,029	1,507,811	5,591,840
<b>Liabilities</b>			
Accounts payable	914,058	2,594,305	3,508,363
Accrued salaries and wages	22,991	12,837	35,828
Other accrued liabilities	169,245	55,081	224,326
Customer deposits		653,570	653,570
Accrued interest payable		219,935	219,935
Noncurrent liabilities			
Net pension liability	13,421,237	6,105,400	19,526,637
Due within one year	529,166	303,222	832,388
Due in more than one year:			
Accrued compensated absences	241,670	166,689	408,359
Notes payable	2,999,029	41,359,918	44,358,947
Bonds payable		424,000	424,000
Total non-current liabilities	<u>17,191,102</u>	<u>48,359,229</u>	<u>65,550,331</u>
Total liabilities	<u>18,297,396</u>	<u>51,894,957</u>	<u>70,192,353</u>
<b>Deferred inflows of Resources</b>			
Deferred inflows related to pensions	133,486	236,863	370,349
<b>Net Position</b>			
Net investment in capital assets	8,554,907	34,735,411	43,290,318
Restricted for			
CDBG housing	65,351		65,351
Special purposes	564,012		564,012
Employee benefits	861,918		861,918
Debt service		2,679,078	2,679,078
Renewal and replacement		540,000	540,000
Landfill post closure reserve		340,000	340,000
Unrestricted	(3,913,541)	5,189,462	1,275,921
<b>Total net position</b>	<u>\$ 6,132,647</u>	<u>\$ 43,483,951</u>	<u>\$ 49,616,598</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, 2017

Function/Program	Expenses	Program Revenues			Net Revenue
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	(Expense)  Total
<b>Governmental activities</b>					
General government	\$ 1,568,478	\$ 487,763	\$ 667,446	\$ 23,163	\$ (390,106)
Community development	401,195				(401,195)
Police department	3,877,837				(3,877,837)
Fire department	3,888,559				(3,888,559)
Street department	695,917				(695,917)
Tourism	299,091	295,862			(3,229)
Municipal aid	238,755				(238,755)
E-911	108,657				(108,657)
Alcohol beverage control	1,067	1,022,266			1,021,199
Drug court awards	6,386				(6,386)
Unallocated interest expense	66,332				(66,332)
<b>Total governmental activities</b>	<b>11,152,274</b>	<b>\$ 1,805,891</b>	<b>\$ 667,446</b>	<b>\$ 23,163</b>	<b>\$ (8,655,774)</b>
<b>Business-Type activities</b>					
Water and sewer	6,603,721	8,674,298			2,070,577
Natural gas	7,620,581	7,715,425			94,844
Sanitation	2,451,565	3,059,823			608,258
Stormwater	241,624	236,689			(4,935)
<b>Total business-type activities</b>	<b>16,917,491</b>	<b>19,686,235</b>			<b>2,768,744</b>
<b>Total primary government</b>	<b>\$ 28,069,765</b>	<b>\$ 21,492,126</b>	<b>\$ 667,446</b>	<b>\$ 23,163</b>	<b>\$ (5,887,030)</b>

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

**CITY OF MURRAY, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
For The Year Ended June 30, 2017

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Changes in Net Position</b>			
Net revenue (expense)	\$ (8,655,774)	\$ 2,768,744	\$ (5,887,030)
<b>General Revenues</b>			
Taxes			
Property taxes	4,133,393		4,133,393
Franchise taxes	176,889		176,889
Payments in lieu of taxes	70,658		70,658
Bank shares	126,706		126,706
Insurance tax	2,009,711		2,009,711
Vehicle license tax	1,030,897		1,030,897
Telephone line charges	159,186		159,186
Intergovernmental	396,682		396,682
Interest	42,383	117,260	159,643
Loss on disposal of assets		(323,037)	(323,037)
Miscellaneous	1,334,298	369,415	1,703,713
Transfers	315,000	(315,000)	
Total general revenues and transfers	<u>9,795,803</u>	<u>(151,362)</u>	<u>9,644,441</u>
Change in net position	1,140,029	2,617,382	3,757,411
Net position-beginning of period	4,519,989	40,866,511	45,386,500
Prior period adjustments/restatements	472,629	58	472,687
Net position-beginning, as restated	<u>4,992,618</u>	<u>40,866,569</u>	<u>45,859,187</u>
Net position-end of period	<u>\$ 6,132,647</u>	<u>\$ 43,483,951</u>	<u>\$ 49,616,598</u>

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

**CITY OF MURRAY, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2017

	General Fund	Total Nonmajor Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 5,828,273	\$ 63,908	\$ 5,892,181
Receivables			
Taxes (net of allowance of \$138,829)	145,142		145,142
Due from other funds	133,327		133,327
Other	621,582	291,593	913,175
Restricted assets	65,351	352,044	417,395
<b>Total assets</b>	<b>\$ 6,793,675</b>	<b>\$ 707,545</b>	<b>\$ 7,501,220</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 696,018	\$ 8,095	\$ 704,113
Accrued expenditures		7,313	7,313
Due to other funds		125,739	125,739
Accrued salaries and wages	20,684	2,386	23,070
<b>Total liabilities</b>	<b>716,702</b>	<b>143,533</b>	<b>860,235</b>
<b>Fund Balances</b>			
Restricted	65,351	564,012	629,363
Unassigned	6,011,622		6,011,622
<b>Total fund balances</b>	<b>6,076,973</b>	<b>564,012</b>	<b>6,640,985</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,793,675</b>	<b>\$ 707,545</b>	<b>\$ 7,501,220</b>

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

Total governmental fund balances \$ 6,640,985

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. 12,267,373

Internal service funds are used by management to charge the cost 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. 219,897

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. (12,995,608)

Net position of governmental activities \$ 6,132,647

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

**CITY OF MURRAY, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For The Year Ended June 30, 2017

	<b>General Fund</b>	<b>Total Nonmajor Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Property taxes	\$ 4,133,393		\$ 4,133,393
Insurance tax	2,009,711		2,009,711
Vehicle license tax	1,030,897		1,030,897
Transient room tax		295,862	295,862
Franchise taxes	176,889		176,889
Occupational business licenses	344,565		344,565
Payments in lieu of taxes	70,658		70,658
Bank shares	126,706		126,706
License and permits	142,118		142,118
Fines and fees	1,080		1,080
Telephone line charges		159,186	159,186
Intergovernmental revenue	11,240	385,442	396,682
Interest	35,275	4,601	39,876
Alcoholic beverage fees		1,022,266	1,022,266
Miscellaneous income	1,314,545	19,753	1,334,298
Grant funds received	667,446		667,446
<b>Total revenues</b>	<b>10,064,523</b>	<b>1,887,110</b>	<b>11,951,633</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	1,446,311		1,446,311
Police department	3,450,503		3,450,503
Fire department	3,298,251		3,298,251
Street department	666,460	238,755	905,215
Planning and zoning	401,195		401,195
Tourism commission		333,276	333,276
E-911		108,657	108,657
Freedom fest		11,295	11,295
Drug court awards		6,386	6,386
Alcoholic beverage control		1,067	1,067
<b>Debt service</b>			
Principal	266,933		266,933
Interest	66,332		66,332
<b>Total expenditures</b>	<b>9,595,985</b>	<b>699,436</b>	<b>10,295,421</b>
Revenues over (under) expenditures	468,538	1,187,674	1,656,212
<b>Other Financing Sources (Uses)</b>			
Transfers from other funds	1,365,000		1,365,000
Transfers to other funds		(1,050,000)	(1,050,000)
<b>Total other financing sources (uses)</b>	<b>1,365,000</b>	<b>(1,050,000)</b>	<b>315,000</b>
<b>Net change in fund balance</b>	<b>1,833,538</b>	<b>137,674</b>	<b>1,971,212</b>
Fund balance, beginning	3,770,806	426,338	4,197,144
Prior period adjustments	472,629		472,629
Fund balance, beginning-restated	4,243,435	426,338	4,669,773
Fund balance, end of year	\$ 6,076,973	\$ 564,012	\$ 6,640,985

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, 2017

Net change in fund balance-total governmental funds	\$ 1,971,212
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 depreciation exceed capital assets in the current period.	(132,820)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes financial resources of the governmental funds. Neither transaction however, has any effect on net position.	
Principal payments on debt	266,933
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.	30,819
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 expense	(1,021,785)
Internal service funds are used by management to charge the costs of certain activities, such as central age services and employee health insurance, to individual funds. These net revenue (expense) of these internal service funds is reported with governmental activities.	25,670
	25,670
Change in net position of governmental activities	<b>\$ <u>1,140,029</u></b>

**CITY OF MURRAY, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2017**

	Water and Sewer	Business-Type Activities			Totals	Governmental Activities
		Gas	Sanitation	Stormwater		Internal Service
<b>Assets</b>						
Cash and cash equivalents	\$ 5,053,479	\$ 5,681,027	\$ 721,632	\$ 31,770	\$ 11,487,908	\$
Receivables (net of allowances)						
Customers	515,352	331,492	241,120	14,103	1,102,067	
Miscellaneous	2,923	1,013	229	225	4,390	48,589
Due from other funds		177,190			177,190	
Materials and supplies, at average cost	257,787	111,999			369,786	45,930
Total current assets	5,829,541	6,302,721	962,981	46,098	13,141,341	94,519
Noncurrent assets						
Construction in progress		906,258	120,467		1,026,725	
Utility plant in service	96,266,321	8,764,059			105,030,380	
Land	443,847	924,980	54,524		1,423,351	
Building;	849,061	1,232,031	314,723		2,395,815	225,000
Machinery and equipment	603,428	513,488	1,860,618		2,977,534	157,642
Vehicles	764,895	414,140		35,116	1,214,151	
Other equipment	1,477,265	1,535,954	56,421	38,809	3,108,449	
Drainage improvement				2,101,222	2,101,222	
Accumulated depreciation	(33,727,580)	(6,442,026)	(2,070,755)	(362,563)	(42,602,924)	(325,243)
Restricted assets	3,557,969	401,535	340,000		4,299,504	861,918
Total noncurrent assets	70,235,206	8,250,419	675,998	1,812,584	80,974,207	919,317
<b>Total assets</b>	<b>76,064,747</b>	<b>14,553,140</b>	<b>1,638,979</b>	<b>1,858,682</b>	<b>94,115,548</b>	<b>1,013,836</b>
<b>Deferred Outflow.i of Resources</b>						
Deferred outflows related to pensions	826,903	520,994	117,915	41,999	1,507,811	67,215
<b>Liabilities</b>						
Current Liabilities						
Accounts pay able	1,779,575	576,923	229,836	7,971	2,594,305	209,945
Accrued salaries and wages	7,202	4,885	379	371	12,837	29,222
Accrued compensated absences	187,024	103,977	19,511	4,025	314,537	
Accrued liabilities	24,837	19,718	10,526		55,081	161,932
Due to other funds		7,588			7,588	177,190
Current portion of bonds/notes payable	155,374				155,374	
Customer deposits	266,115	387,455			653,570	
Accrued interest						
Bonds	34,159				34,159	
Customer deposits	71,533	114,243			185,776	
Total current liabilities	2,525,819	1,214,789	260,252	12,367	4,013,227	578,289
Noncurrent liabilities						
Net pension liability	3,348,041	2,109,702	477,574	170,083	6,105,400	272,301
Notes payable	41,359,918				41,359,918	
Bonds payable	424,000				424,000	
Total noncurrent liabilities	45,131,959	2,109,702	477,574	170,083	47,889,318	272,301
<b>Total liabilities</b>	<b>47,657,778</b>	<b>3,324,491</b>	<b>737,826</b>	<b>182,450</b>	<b>51,902,545</b>	<b>850,590</b>
<b>Deferred Inflow.i of Resources</b>						
Deferred inflows related to pensions	129,890	81,847	18,528	6,598	236,863	10,564
<b>Net Position</b>						
Net investment in capital assets	24,737,945	7,848,884	335,998	1,812,584	34,735,411	57,399
Restricted for						
Employee benefit trust						861,918
Debt service	2,679,078				2,679,078	
Renewal and replacement	540,000				540,000	
Landfill post closure reserve			340,000		340,000	
Unrestricted	1,146,959	3,818,912	324,542	(100,951)	5,189,462	(699,420)
<b>Total net position</b>	<b>\$ 29,103,982</b>	<b>\$ 11,667,796</b>	<b>\$ 1,000,540</b>	<b>\$ 1,711,633</b>	<b>\$ 43,483,951</b>	<b>\$ 219,897</b>

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, 2017

	Water and Sewer	Business-Type Activities			Totals	Governmental Activities
		Gas	Sanitation	Stormwater		Internal Service
<b>Operating Revenues</b>						
Charges for services	\$ 8,407,458	\$ 7,573,504	\$ 3,059,823	\$ 236,689	\$ 19,277,474	\$
Interfund service provided						516,830
Tap-on fees	266,840	141,921			408,761	
Miscellaneous revenues	279,537	66,270	23,237	371	369,415	
Contributions to medical insurance fund						1,380,530
Total operating revenues	8,953,835	7,781,695	3,083,060	237,060	20,055,650	1,897,360
<b>Operating Expenses</b>						
Water plant expenses	696,845				696,845	
Sewer plant expenses	1,556,402				1,556,402	
Water and sewer field operations	921,948				921,948	
Gas purchased		4,857,027			4,857,027	
Engineering operations	209,744				209,744	
General office operations	573,835				573,835	
Administration expenses	769,767				769,767	405,580
Other operating expenses						491,440
Depreciation	1,488,540	349,462	166,255	62,437	2,066,694	5,585
Gas plant expenses		2,402,491			2,402,491	
Transfer station and landfill expenses			2,285,310		2,285,310	
Stormwater expenses				179,187	179,187	
Medical claims paid						971,592
Total operating expenses	6,217,081	7,608,980	2,451,565	241,624	16,519,250	1,874,197
Operating income (loss)	2,736,754	172,715	631,495	(4,564)	3,536,400	23,163
<b>Non-operating Revenues (Expenses)</b>						
Interest and dividend income	56,606	53,565	6,727	362	117,260	2,507
Interest expense	(386,640)	(1 1,601)			(398,241)	
Gain (loss) on sale of assets			(323,037)		(323,037)	
Total non-operating revenues (expenses)	(330,034)	41,964	(316,310)	362	(604,018)	2,507
Income before transfers	2,406,720	214,679	315,185	(4,202)	2,932,382	25,670
<b>Operating Transfers</b>						
From (to) other funds	(105,000)	(105,000)	(105,000)		(315,000)	
<b>Change in net position</b>	<b>2,301,720</b>	<b>109,679</b>	<b>210,185</b>	<b>(4,202)</b>	<b>2,617,382</b>	<b>25,670</b>
Net position-beginning of period-restated	26,802,262	11,558,117	790,355	1,715,835	40,866,569	194,227
Net position-end of period	\$29,103,982	\$11,667,796	\$1,000,540	\$ 1,711,633	\$43,483,951	\$ 219,897

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, 2017

	Water and Sewer	Business-Type Activities			Governmental Activities	
		Gas	Sanitation	Stormwater	Totals	Internal Semce
<b>Cash FloM From Operating Activities</b>						
Cash received from customers	\$ 8,888,000	\$7,719,767	\$3,029,561	\$ 237,513	\$ 19,874,841	\$
Cash paid to suppliers	(3,850,019)	(5,334,473)	(1,760,965)	(90,868)	(11,036,325)	(321,219)
Cash paid for emp Joyees and benefits	(2,173,123)	(1,561,449)	(760,971)	(120,812)	(4,616,355)	(150,761)
Cash received from interfund services provided						335,191
Customer deposits received (refunded)	42,845	8,635			51,480	
Net cash provided by operating activities	2,907,703	832,480	507,625	25,833	4,273,641	(136,789)
<b>Cash Flow From Noncapital Financing Activities</b>						
Transfer to other funds	(105,000)	(105,000)	(105,000)		(315,000)	
Landfill closure funded			(10,650)		(10,650)	
Cash received for interfund payables	37,000	(47,987)	34,000		23,013	
Net cash provided (used) by noncapital financing activities	(68,000)	(152,987)	(81,650)		(302,637)	
<b>Cash FloM From Capital And Related Financing Activities</b>						
Proceeds from sale of capital assets	10,774	16,608			27,382	
Acquisition and construction of capital assets	(21,894,955)	(1,630,208)	(120,467)	(91,019)	(23,736,649)	(34,771)
Proceeds from debt	22,512,752				22,512,752	
Principal paid on cap ital debt	(153,776)				(153,776)	
Interest paid on capital debt	(369,347)				(369,347)	
Interest paid on customer deposits	(4,085)	(6,369)			(10,454)	
Net cash provided (used) by capital and related financing activities	101,363	(1,619,969)	(120,467)	(91,019)	(1,730,092)	(34,771)
<b>Cash FloM From Investing Activities</b>						
Interest and dividends	56,606	53,665	6,727	362	117,260	2,507
Net cash provided by investing activities	56,606	53,565	6,727	362	117,260	2,507
<b>Net increase(decrease)incashandcashequivalents</b>	<b>2,997,672</b>	<b>(886,911)</b>	<b>312,235</b>	<b>(64,824)</b>	<b>2,358,172</b>	<b>(169,053)</b>
Cash and cash equivalents at beginningofyear-Restated	5,613,776	6,969,473	409,397	96,594	13,089,240	1,030,971
Cashandcashequivalentsatendofyear	<u>\$ 8,611,448</u>	<u>\$6,082,562</u>	<u>\$ 721,632</u>	<u>\$ 31,770</u>	<u>\$15,447,412</u>	<u>\$ 861,918</u>
Cash and cash equivalents are included on the Statement of Net Position as:						
Cash and cash equivalents	\$ 5,053,479	\$5,681,027	\$ 721,632	\$ 31,770	\$11,487,908	
Restricted assets	3,557,969	401,535			3,959,504	861,918
Total	<u>\$ 8,611,448</u>	<u>\$6,082,562</u>	<u>\$ 721,632</u>	<u>\$ 31,770</u>	<u>\$15,447,412</u>	<u>\$ 861,918</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, 2017

	Business-Type Activities				Totals	Governmental Activities
	Water and Sewer	Gas	Sanitation	Stormwater		Internal Service
<b>Reconciliation of Operating Income (loss) to</b>						
<b>Net Cash Provided (Used) by Operating Activities</b>						
Operating income	\$2,736,754	\$172,715	\$ 631,495	\$ (4,564)	\$3,536,400	\$ 23,163
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation expense	1,488,540	349,462	166,255	62,437	2,066,694	<b>5,585</b>
Pension expense	371,258	237,690	(280,325)	18,498	347,121	387
(Increase) Decrease in operating assets:						
Receivables-customers	(64,674)	(61,517)	(53,634)	429	(179,396)	(32,489)
Receivables-others	(1,161)	(410)	135	24	(1,412)	
Inventory	(6,891)	59,813			52,922	1,244
Increase (Decrease) in operating liabilities:						
Accounts payable	(1,667,795)	92,473	123,737	(51,255)	(1,502,840)	19,019
Accrued expenses	8,827	(26,381)	(80,038)	264	(97,328)	(214,866)
Customer deposits	42,845	8,635			51,480	
Due to other funds						<u>61,168</u>
Net cash provided by operating activities	<u>\$2,907,703</u>	<u>\$832,480</u>	<u>\$ 507,625</u>	<u>\$ 25,833</u>	<u>\$4,273,641</u>	<u>\$ (136,789)</u>

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

**CITY OF MURRAY, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
June 30, 2017

	<b><u>Pension Trust Fund</u></b>	<b><u>Private-Purpose Trust Fund</u></b>	
	<b><u>Employee Retirement</u></b>	<b><u>Cemetery</u></b>	<b><u>Totals</u></b>
<b>Assets</b>			
Restricted assets			
Cash	\$ 3,858	\$ 165,546	\$ 169,404
Investments, at fair value	<u>1,040,388</u>		<u>1,040,388</u>
Total assets	<u>1,044,246</u>	<u>165,546</u>	<u>1,209,792</u>
<b>Liabilities</b>			
Accounts payable		<u>3,950</u>	<u>3,950</u>
Total liabilities		<u>3,950</u>	<u>3,950</u>
<b>Net Position</b>			
Assets held in trust for pension benefits and other purposes	<u>\$ 1,044,246</u>	<u>\$ 161,596</u>	<u>\$1,205,842</u>

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, 2017

	<b>Pension Trust Fund Employee Retirement</b>	<b>Private-Purpose Trust Fund Cemetery</b>	<b>Totals</b>
<b>Additions</b>			
Contributions	\$ 168,918		\$ 168,918
Cemetery sales		35,475	35,475
Investment income:			
Interest and dividends	26,889	133	27,022
Net change in fair value investments	85,423		85,423
Gain on sale of assets	(13,925)		(13,925)
Total additions	<u>267,305</u>	<u>35,608</u>	<u>302,913</u>
<b>Deductions</b>			
Benefits	183,797		183,797
Administrative expenses	7,011	8,992	16,003
Repairs and maintenance		<u>25,999</u>	<u>25,999</u>
Total deductions	<u>190,808</u>	<u>34,991</u>	<u>225,799</u>
<b>Change in net position</b>	<b>76,497</b>	<b>617</b>	<b>77,114</b>
Net position, beginning of year, restated	<u>967,749</u>	<u>160,979</u>	<u>1,128,728</u>
Net position, end of year	<u>\$ 1,044,246</u>	<u>\$ 161,596</u>	<u>\$ 1,205,842</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, 2017

**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.

**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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. Basis of Accounting and Measurement Focus - Continued**

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).

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. 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.

**E. 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.

**F. 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.

**G. 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.

**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**G. Capital Assets - Continued**

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:

	Useful Life (Years)
Infrastructure	25 - 50
Utility Plant	33 - 50
Machinery and equipment	5 - 20
Building;	25 - 33
Vehicles	4-5

**H. 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.

**I. 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.

**J. 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.

**K. 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.

**L. Long-Term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. All long-term debt to be repaid from governmental and business-type resources is reported in the government-wide statements. The long-term debt consists primarily of notes payable and bonds payable. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources and repayments as expenditures. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**M. 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, 2017, none of the City's fund balances were classified as nonspendable.

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

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

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

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

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

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

**N. 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.

**O. 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.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - Continued**

**A. Budgets and the Budgetary Process - Continued**

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 \$304,007 exists in the Central Garage Fund as of June 30, 2017, resulting from excess expenditures incurred and the pension adjustments required by the new pension standards adopted 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, 2017, 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, 2017, are summarized below:

Investment Type	Fair Value	Percent of Total
Mutual Funds	\$396,114	38.1%
FHLMC	107,500	10.3%
Common Stock	536,774	51.6%
	<u>\$1,040,388</u>	100%

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, 2017, 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, 2017, the City had three instances of investments with a single issuer exceeding 5% of total investments, as shown in the above table.

**NOTE 3- DETAIL NOTES- Continued**

**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 I, with taxes levied on September 30 and due on October 31. Property taxes receivable as of June 30, 2017, are composed of the following:

Year of Levy	Amount
2016	\$ 108,526
2015	65,307
2014	33,806
2013	37,543
2012	38,789
Total Property Taxes Receivable	283,971
Less Allowance For Uncollectible	(138,829)
Net Property Taxes Receivable	<u>\$ 145,142</u>

**D. Interfund Transactions**

Interfund receivables and payables at June 30, 2017, for operating expenses were as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 133,327	
Central Garage Fund		177,190
ABC Fund		125,739
Gas Fund	<u>177,190</u>	<u>7,588</u>
Total Due To	<u>\$ 310,517</u>	<u>\$ 310,517</u>

The following interfund transfers were made during the year:

	General Fund	Municipal Road Aid Fund	E-911 Fund	Abe Fund	Water& Sewer	Gas	Sanitation	Total Transfers In
General Fund	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 950,000</u>	<u>\$ 105,000</u>	<u>\$ 105,000</u>	<u>\$ 105,000</u>	<u>\$1,365,000</u>
Total Transfers Out	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 950,000</u>	<u>\$ 105,000</u>	<u>\$ 105,000</u>	<u>\$ 105,000</u>	<u>\$1,365,000</u>

**NOTE 3 - DETAIL NOTES - (Continued)**

**E. Property, Plant, and Equipment**

Capital asset activity for the year is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 528,939			\$ 528,939
Construction in Progress		46,206		46,206
Total Capital Assets Not Being Depreciated	<u>\$ 528,939</u>	<u>\$ 46,206</u>		<u>\$ 575,145</u>
Capital Assets, Being Depreciated:				
Buildings	3,530,426			3,530,426
Machinery and equipment	4,713,782	241,038		4,954,820
Infrastructure	10,779,174	278,397		11,057,571
Total Capital Assets Being Depreciated	<u>\$ 19,023,382</u>	<u>\$ 519,435</u>		<u>\$ 19,542,817</u>
Less Accumulated Depreciation For:				
Buildings	(868,213)	(78,703)		(946,916)
Machinery and equipment	(2,322,376)	(316,990)		(2,639,366)
Infrastructure	(3,933,326)	(273,582)		(4,206,908)
Total Accumulated Depreciation	<u>\$ (7,123,915)</u>	<u>\$ 669,275</u>		<u>\$ (7,793,190)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 11,899,467</u>	<u>\$ (149,840)</u>		<u>\$ 11,749,627</u>
Governmental Activities Capital Assets, Net	<u>\$ 12,428,406</u>	<u>\$ (103,634)</u>		<u>\$ 12,324,772</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business Type Activities:</b>				
Capital Assets				
Land	\$ 1,423,351			\$ 1,423,351
Construction in progress		1,026,725		1,026,725
Buildings	2,367,978	27,837		2,395,815
Machinery and equipment	9,771,457	506,803	(2,978,126)	7,300,134
Drainage improvement	2,010,203	91,019		2,101,222
Utility plant	83,020,398	22,084,265	(74,283)	105,030,380
Total Capital Assets	<u>\$ 98,593,387</u>	<u>\$ 23,736,649</u>	<u>\$ (3,052,409)</u>	<u>\$ 119,277,627</u>
Less Accumulated Depreciation For:				
Buildings	(1,600,234)	(70,797)	251,072	(1,419,959)
Machinery and equipment	(7,915,741)	(475,959)	2,404,017	(5,987,683)
Drainage improvement	(256,396)	(51,039)		(307,435)
Utility plant	(33,465,828)	(1,468,910)	46,880	(34,887,858)
Total Accumulated Depreciation	<u>\$ (43,238,199)</u>	<u>\$ (2,066,705)</u>	<u>\$ 2,701,969</u>	<u>\$ (42,602,935)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 55,355,188</u>	<u>\$ 21,669,944</u>	<u>\$ (350,440)</u>	<u>\$ 76,674,692</u>

**NOTE 3 - DETAIL NOTES - (Continued)**

**E. Property, Plant, and Equipment - Continued**

Depreciation was charged to governmental functions as follows:

General government	\$	29,977
Police department		140,645
Fire department		180,565
Street department		310,154
Tourism		2,349
Central garage		5,585
	\$	<u>669,275</u>

**F. Restricted Assets**

Restricted assets at June 30, 2017, consisted of the following cash accounts:

General Fund		
CDBG Housing	\$	65,351
Special revenue funds		352,044
Employee benefits		861,918
Total governmental funds		<u>1,279,313</u>
Water and Sewer		
Meter deposits		338,891
Bond and interest reserve		2,679,078
Renewal and replacement		540,000
Natural Gas		
Meter deposits		401,535
Sanitation		
Landfill postclosure reserve		340,000
Total Business-Type funds		<u>4,299,504</u>
Total Restricted Assets	\$	<u>5,578,817</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, 2017, the City's total covered payroll was \$7,153,924. Covered payroll refers to all compensation paid by the City to active employees covered by the plans.

*Contributions-* The contribution requirements of plan members and the City are established by state statute. Employee contributions for plan members who began participating with KRS prior to September 1, 2008, were 5% for nonhazardous employees and 8% for hazardous employees of their annual creditable compensation to KRS.

**NOTE 3 - DETAIL NOTES -(Continued)**

**G. Retirement Plan - (Continued)**

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 40 I (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, 2017, were 18.68% for nonhazardous employees and 31.06% for hazardous employees. The City's contributions to the plans for the year ended June 30, 2017, were \$1,758,287.

*Pension Liabilities-* At June 30, 2016, the City reported a liability of \$8,378,483 for its proportionate share of the net pension liability of the nonhazardous plan and \$11,016,022 for the hazardous plan. The net pension liability was measured as of June 30, 2016, 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, 2016, the City's proportion was 0.17017 percent for the nonhazardous plan and 0.0064198 percent for the hazardous plan.

*Pension Expense-* For the year ended June 30, 2016, the City recognized pension expense of \$1,141,560 for the nonhazardous plan and \$1,246,840 for the hazardous plan.

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions-* At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience		
CERS Nonhazardous	\$ 36,579	\$
CERS Hazardous	158,879	
Difference between projected and actual investment earning; on Plan investments		
CERS Nonhazardous	787,663	
CERS Hazardous	929,301	
Change of assumptions		
CERS Nonhazardous	443,847	
CERS Hazardous	632,146	
Change in proportion and differences between employer contributions and proportionate share of contributions		
CERS Nonhazardous	101,389	325,048
CERS Hazardous	707,947	33,015
Employer contributions subsequent to the measurement date		
CERS Nonhazardous	699,707	
CERS Hazardous	1,058,580	
Total	\$ 5,556,038	\$ 358,063

**NOTE 3 - DETAIL NOTES -(Continued)**

**G. Retirement Plan - (Continued)**

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, 2018. 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	
2018	\$ 859,922
2019	859,922
2020	859,922
2021	859,922
	\$ 3,439,688

*Actuarial Assumptions-* The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<b>Inflation</b>	3.25 percent
<b>Salary Increases</b>	4.0 percent, average, including inflation
<b>Investment Rate of Return</b>	7.50 percent., net of pension plant 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (Diversified Inflation Strategy)	10%	3.50%
Real estate	5%	4.50%
Absolute return (Diversified Hedge Fund)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	100%	

**NOTE 3 - DETAIL NOTES -(Continued)**

**G. Retirement Plan - (Continued)**

*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 2117. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 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 I-percentage-point lower (6.50 percent) or I-percentage-point higher (8.50 percent) than the current rate:

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
<b>CERS:</b>			
Nonhazardous-Net Pension Liability	\$ 10,440,947	\$ 8,378,483	\$ 6,610,541
Hazardous-Net Pension Liability	\$ 13,839,336	\$ 11,016,022	\$ 8,687,276

*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, 2016.

**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, 2017, were \$14,736.

*Pension Liabilities* - At June 30, 2016, the Murray Convention and Visitors Bureau reported a liability of \$132,132 for its proportionate share of the net pension liability of the plan. The net pension liability was measured as of June 30, 2016, 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, 2016, the Murray Convention and Visitors Bureau's proportion was 0.00268 percent.

*Pension Expense* - For the year ended June 30, 2017, the Murray Convention and Visitors Bureau recognized pension expense of \$13,612.

**NOTE 3 - DETAIL NOTES -(Continued)**

**G. Retirement Plan - (Continued)**

**Murray Convention and Visitors Bureau**

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* - For the year ended June 30, 2017, the Murray Convention and Visitors Bureau reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 577	\$
Difference between projected and actual investment earnings on Plan investments	12,422	
Change of assumptions	7,000	
Change in proportion and differences between employer contributions and proportionate share of contributions	1,068	12,286
Employer contributions subsequent to the measurement date	14,735	
<b>Total</b>	<b>\$ <u>35,802</u></b>	<b>\$ 12,286</b>

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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	
2018	\$ 8,288
2019	4,116
2020	4,870
2021	<u>2,725</u>
	<b>\$ 19,999</b>

**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 \$1,044,246 at June 30, 2017. An actuarial valuation was performed as of June 30, 2016, and submitted by the actuary in December 2017. 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.

**NOTE 3 - DETAIL NOTES-(Continued)**

**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 JG and, therefore, are not included in this discussion.

Notes and bonds payable at June 30, 2017, are summarized, as follows:

**Governmental Activities**

BB&T notes payable - due in scheduled maturities through January 13, 2023	\$ 267,094
TMB note payable - monthly payments of \$12,355 through July 23, 2035, including interest at 1.75%	2,296,625
Community Financial Services Bank note payable - monthly payments of \$8,524 through May 5, 2024, including interest at 2.78%	642,072
Community Financial Services Bank note payable - through January 13, 2019	76,960
	<u>3,282,751</u>

**Water and Sewer Fund**

Kentucky Area Development District Financing Trust- due in schedule maturities through May 20, 2023 at 1.5% to 4.7%	\$ 585,000
Kentucky Infrastructure Authority Revolving Loan Fund - due in scheduled maturities through June 1, 2029, at 1%	765,819
200 I Revenue Bonds - due in scheduled maturities through January 1, 2041 at 4.75%	434,000
Kentucky Infrastructure Authority Revolving Loan Fund - Fund A Loan Construction Loan- upon completion will be due in schedule maturities for twenty years at 1%	40,154,473
	<u>\$ 41,939,292</u>

**NOTE 3 - DETAIL NOTES -(Continued)**

**H. Long-Term Liabilities- Continued**

The annual debt service requirements to maturity for the above long-term debt as of June 30, 2017, are presented below:

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 283,722	\$ 62,300	\$ 155,374	\$ 56,695
2019	278,655	56,192	1,070,300	252,695
2020	250,817	50,508	1,999,892	434,366
2021	256,444	44,881	2,023,879	410,269
2022	262,172	39,154	2,049,055	385,745
2023-2027	834,382	132,569	10,132,722	1,578,034
2028-2032	672,078	69,199	10,346,596	1,045,491
2033-2037	444,481	12,637	10,754,227	502,483
2038-2041			3,407,247	46,470
<b>Totals</b>	<b>\$ 3,282,751</b>	<b>\$467,440</b>	<b>\$41,939,292</b>	<b>\$ 4,712,248</b>

The following is a summary of the City's long-term liability activity for the year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
BB&T - Fire Truck	\$ 307,991		\$ 40,897	\$ 267,094	\$ 45,616
The Murray Bank	2,403,672		107,047	2,296,625	108,939
Community Financial Services	119,876		42,916	76,960	43,685
Community Financial Services	718,145		76,073	642,072	85,482
Compensated absences	513,738		26,624	487,114	245,444
	<u>\$ 4,063,422</u>		<u>\$ 293,557</u>	<u>\$ 3,769,865</u>	<u>\$ 529,166</u>
<b>Business-type activities</b>					
KADD	\$ 670,000		\$ 85,000	\$ 585,000	\$ 85,000
KIA	825,594		59,776	765,818	60,374
KIA 12/12	17,641,720	22,512,754		40,154,474	
2001 Revenue Bonds	443,000		9,000	434,000	10,000
Compensated absences	444,352		129,815	314,537	147,848
	<u>\$ 20,024,666</u>	<u>\$ 22,512,754</u>	<u>\$ 283,591</u>	<u>\$ 42,253,829</u>	<u>\$ 303,222</u>

**NOTE 3 - DETAIL NOTES -(Continued)**

**I. Conduit Debt Obligations**

As of June 30, 2017, the City of Murray had the following bond issues outstanding related to the acquisition and construction of facilities:

Murray State University	\$ 7,765,000
Murray Calloway County Hospital	38,030,000
Total principal amounts payable	<u>45,795,000</u>

**J. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. To obtain insurance of these risks, the City participates in the Kentucky League of Cities Insurance Services (KLCIS). These public entity risk pools operate as common risk managements and insurance programs for participating cities and other governmental entities in Kentucky. The City pays an annual premium to each fund for coverage. City employees are provided traditional health care insurance that covers hospitalization and major medical expenses within specified limits. The plan is self-funded by the City and administered by a third-party administrator. The City pays the administrator a fee for various claim administration services. The City pays all claims after the third-party administrator who in turn issues individual claim checks. The City carries stop-loss insurance against catastrophic losses. The premiums for these policies are billed by the third-party administrator to the City. The claims liability reported in the Medical Insurance Fund at June 30, 2017 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, 2017, 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.

**NOTE 4 - PRIOR PERIOD ADJUSTMENT**

Beginning fund balance/net position for June 30, 2016 has been adjusted for prior period misstatements. In the prior period, an accrual for insurance tax receivable in the amount of \$472,629 was not recorded. These revenues should have been recognized in the prior period, the year in which they were earned. The water and sewer fund/net position was restated due to a prior year voided transaction in the amount of \$58.

**NOTE 5- SUBSEQUENT EVENTS**

In preparing the financial statements, management has evaluated transactions and events for potential recognition or disclosure through January 11, 2018, the date financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MURRAY, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of City of Murray's Proportionate Share of the Net Pension Liability**  
**County Employees Retirement System of Kentucky Retirement Systems-**  
**For The Year Ended June 30,**

<b>CERS:</b>	2015	2016
<b>Nonhazardous</b>		
Total Net Pension Liability for County Employees Retirement System	\$ 4,299,525 ,565	\$ 4,923,618,237
Employer's Proportion (Percentage) of Net Pension Liability	0.182299%	0.170 17%
Employers Proportion (Amount) of Net Pension Liability	\$ 7,837 ,990	\$ 8,378,483
Employer's Covered-Employer payroll	\$ 4,218,402	\$ 3,742,209
Employer's Proportionate Share (Amount) of Net Pension Liability As a Percentage of Employer's Covered-Employer Payroll	1 85.80%	223 .89%
Total Pension Plan's Fiduciary Net Position	\$ 6,440,800	\$ 6,141, 394,419
Total Pension's Plan Pension Liability	\$ 10,740,325	\$ 11,065,012,656
Total Pension Plan's Fiduciary Net Position as a Percentage to Total Pension Liability	59 .97%	55.50%
<b>Hazardous</b>		
Total Net Pension Liability for County Employees Retirement System	\$ 1,535,105,880	\$ 1,715,941,441
Employer's Proportion (Percentage) of Net Pension Liability	0.64550%	0.64198%
Employers Proportion (Amount) of Net Pension Liability	\$ 9,909,090	\$ 11,016,022
Employer's Covered-Employer payroll	\$ 3,419,071	\$ 3,398,434
Employer's Proportionate Share (Amount) of Net Pension Liability As a Percentage of Employer's Covered-Employer Payroll	289.82%	324.15%
Total Pension Plan's Fiduciary Net Position	\$ 2,078,201,667	\$ 2,010,174,047
Total Pension's Plan Pension Liability	\$ 3,6 13,307,547	\$ 3,726,115 ,488
Total Pension Plan's Fiduciary Net Position as a Percentage to Total Pension Liability	57.52%	53.95%
<b>Murray Convention Center</b>		
<b>CERS:</b>		
<b>Nonhazardous</b>		
Total Net Pension Liability for County Employees Retirement System	\$ 4, 299,525,565	\$ 4,923,618,237
Employer's Proportion (Percentage) of Net Pension Liability	0.003142%	0.00268%
Employers Proportion (Amount) of Net Pension Liability	\$ 1 35,095	\$ 132,132
Employer's Covered-Employer payroll	\$ 73,309	\$ 72,185
Employer's Proportionate Share (Amount) of Net Pension Liability As a Percentage of Employer's Covered-Employer Payroll	184.28%	1 83.05%
Total Pension Plan's Fiduciary Net Position	\$ 6,440,800	\$ 6,141,39 4,419
Total Pension's Plan Pension Liability	\$ 10,740 ,325	\$ 11,065,012,656
Total Pension Plan's Fiduciary Net Position as a Percentage to Total Pension Liability	59.97%	55.50%

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.

**CITY OF MURRAY, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of City of Murray's Contributions**  
**County Employees Retirement System of Kentucky Retirement Systems-**  
For The Year Ended June 30,

**CERS:**

**Nonhazardous**

	2014	2015	2016
Statutorily required contribution for pension	\$ 761,704	\$ 732,091	\$ 699,046
System's contributions in relation to the statutorily required contribution	(761,704)	(732,091)	(699,046)
Annual contribution deficiency (excess)	\$	\$	\$
System's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%
System's Covered-Employee payroll	\$ 4,032,313	\$ 4,143,147	\$ 3,742,209
Contributions as a percentage of its covered employee payroll	18.89%	17.67%	18.68%

**Hazardous**

Statutorily required contribution for pension	\$ 1,002,863	\$ 1,152,159	\$ 1,055,553
System's contributions in relation to the statutorily required contribution	(1,002,863)	(1,152,159)	(1,055,553)
Annual contribution deficiency (excess)	\$	\$	\$
System's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%
System's Covered-Employee payroll	\$ 2,809,140	\$ 3,358,076	\$ 3,398,434
Contributions as a percentage of its covered employee payroll	35.70%	34.31%	31.06%

**Murray Convention Center**

**CERS:**

**Nonhazardous**

	2014	2015	2016
Statutorily required contribution for pension	\$ 13,318	\$ 9,381	\$ 7,624
System's contributions in relation to the statutorily required contribution	(13,318)	(9,381)	(7,624)
Annual contribution deficiency (excess)	\$	\$	\$
System's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%
System's Covered-Employee payroll	\$ 70,506	\$ 73,309	\$ 72,185
Contributions as a percentage of its covered employee payroll	18.89%	12.80%	10.56%

**CITY OF MURRAY, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
For The Year Ended June 30, 2017

**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

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, 2017

	<b>ORIGINAL BUDGET</b>	<b>FINAL BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET</b>
<b>Revenues</b>				
Property taxes	\$ 3,828,836	\$ 3,828,836	\$ 4,133,393	\$ 304,557
Insurance tax	2,000,000	2,000,000	2,009,711	9,711
Vehicle license tax	1,250,000	1,250,000	1,030,897	(219,103)
Franchise taxes	175,000	175,000	176,889	1,889
Occupational business licenses	325,000	325,000	344,565	19,565
Payments in lieu of taxes	65,000	65,000	70,658	5,658
Bank shares	110,000	110,000	126,706	16,706
License and permits	100,000	100,000	142,118	42,118
Fines and fees	12,500	12,500	1,080	(11,420)
Intergovernmental revenue	21,000	21,000	11,240	(9,760)
Interest	17,500	17,500	35,275	17,775
Miscellaneous income	176,200	1,460,296	1,314,545	(145,751)
Grant funds received	3,611,200	3,611,200	667,446	(2,943,754)
Transient room tax	245,000	245,000		(245,000)
<b>Total revenues</b>	<u>11,937,236</u>	<u>13,221,332</u>	<u>10,064,523</u>	<u>(3,156,809)</u>
<b>Expenditures</b>				
General government	4,989,077	5,369,077	1,446,311	3,922,766
Police department	3,868,672	3,868,672	3,450,503	418,169
Fire department	3,838,403	3,838,403	3,298,251	540,152
Street department	866,684	871,484	666,460	205,024
Planning and zoning	427,262	431,462	401,195	30,267
Debt service				
Principal			266,933	(266,933)
Interest			66,332	(66,332)
<b>Total expenditures</b>	<u>13,990,098</u>	<u>14,379,098</u>	<u>9,595,985</u>	<u>4,783,113</u>
<b>Revenues over (under) expenditures</b>	<u>(2,052,862)</u>	<u>(1,157,766)</u>	<u>468,538</u>	<u>1,626,304</u>
<b>Other Financing Sources (Uses)</b>				
Transfer from other funds	<u>1,375,000</u>	<u>1,375,000</u>	<u>1,365,000</u>	<u>(10,000)</u>
<b>Total other financing sources (uses)</b>	<u>1,375,000</u>	<u>1,375,000</u>	<u>1,365,000</u>	<u>(10,000)</u>
<b>Net change in fund balance</b>	(677,862)	217,234	1,833,538	1,616,304
Fund balance, beginning of year	<u>3,042,382</u>	<u>3,770,806</u>	<u>4,243,435</u>	<u>472,629</u>
Fund balance, end of year	<u>\$ 2,364,520</u>	<u>\$ 3,988,040</u>	<u>\$ 6,076,973</u>	<u>\$ 2,088,933</u>

**CITY OF MURRAY, KENTUCKY  
COMBINING BALANCE SHEETS  
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2017

	<b>Special Revenue Funds</b>						<b>Totals</b>
	<b>Municipal Aid</b>	<b>Murray</b>			<b>LGEA</b>	<b>Alcoholic Beverage Control</b>	
		<b>E-911</b>	<b>Convention and Visitors Bureau</b>	<b>Drug Court Awards Fund</b>			
<b>Assets</b>							
Cash	\$	\$	\$ 63,908	\$	\$ -	\$	\$ 63,908
Accounts receivable		29,260	16,517			245,816	291,593
Restricted assets	106,946	57,961	138,880	39,305	8,952		352,044
<b>Total assets</b>	<b>\$106,946</b>	<b>\$87,221</b>	<b>\$ 219,305</b>	<b>\$ 39,305</b>	<b>\$8,952</b>	<b>\$245,816</b>	<b>\$707,545</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 1,878	\$ 3,396	\$ 2,821	\$	\$ -	\$	\$ 8,095
Accrued expenditures			7,313				7,313
Accrued wages			2,386				2,386
Due to other funds						125,739	125,739
<b>Total liabilities</b>	<b>1,878</b>	<b>3,396</b>	<b>12,520</b>			<b>125,739</b>	<b>143,533</b>
<b>Fund Balances</b>							
Restricted	105,068	83,825	206,785	39,305	8,952	120,077	564,012
<b>Total fund balances</b>	<b>105,068</b>	<b>83,825</b>	<b>206,785</b>	<b>39,305</b>	<b>8,952</b>	<b>120,077</b>	<b>564,012</b>
<b>Total liabilities and fund balances</b>	<b>\$106,946</b>	<b>\$87,221</b>	<b>\$ 219,305</b>	<b>\$ 39,305</b>	<b>\$8,952</b>	<b>\$245,816</b>	<b>\$707,545</b>

**CITY OF MURRAY, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
For The Year Ended June 30, 2017

	<b>Special Revenue Funds</b>						<b>Totals</b>
	<b>Municipal Aid</b>	<b>Murray</b>				<b>Alcoholic Beverage Control</b>	
		<b>E-911</b>	<b>Convention and Visitors Bureau</b>	<b>Drug Court Awards Fund</b>	<b>LGEA</b>		
<b>Revenues</b>							
Intergovernmental revenues	\$ 345,319	\$29,260	\$	\$ 10,863	\$ -	\$	\$ 385,442
Interest earned	2,151	562	26		70	1,792	4,601
Telephone line charges		159,186					159,186
Transient room tax			295,862				295,862
Alcoholic beverage license fees						1,022,266	1,022,266
Other			19,039		518	196	19,753
<b>Total revenues</b>	<b>347,470</b>	<b>189,008</b>	<b>314,927</b>	<b>10,863</b>	<b>588</b>	<b>1,024,254</b>	<b>1,887,110</b>
<b>Expenditures</b>							
Street department	238,755						238,755
E-911		108,657					108,657
Tourism commission			333,276				333,276
Freedom fest			11,295				11,295
Drug programs				6,386			6,386
Alcoholic beverage control						1,067	1,067
<b>Total expenditures</b>	<b>238,755</b>	<b>108,657</b>	<b>344,571</b>	<b>6,386</b>		<b>1,067</b>	<b>699,436</b>
Revenues over (under) expenditures	108,715	80,351	(29,644)	4,477	588	1,023,187	1,187,674
<b>Other Financing Sources (Uses)</b>							
Transfer to other funds	(50,000)	(50,000)				(950,000)	(1,050,000)
<b>Total other financing sources (uses)</b>	<b>(50,000)</b>	<b>(50,000)</b>				<b>(950,000)</b>	<b>(1,050,000)</b>
<b>Net change in fund balance</b>	<b>58,715</b>	<b>30,351</b>	<b>(29,644)</b>	<b>4,477</b>	<b>588</b>	<b>73,187</b>	<b>137,674</b>
Fund balance, beginning of year	46,353	53,474	236,429	34,828	8,364	46,890	426,338
<b>Fund balance, end of year</b>	<b>\$ 105,068</b>	<b>\$ 83,825</b>	<b>\$ 206,785</b>	<b>39,305</b>	<b>\$ 8,952</b>	<b>\$ 1,200,077</b>	<b>\$ 564,012</b>

**CITY OF MURRAY, KENTUCKY**  
**COMBINING STATEMENT OF NET POSITION**  
**INTERNAL SERVICE FUNDS**  
June 30, 2017

	<b>Central Garage</b>	<b>Medical Insurance Fund</b>	<b>Totals</b>
<b>Assets</b>			
<b>Current Assets</b>			
Accounts receivable	\$ 48,589	\$	\$ 48,589
Materials and supplies, at average cost	45,930		45,930
Total current assets	<u>94,519</u>		<u>94,519</u>
<b>Noncurrent Assets</b>			
Building;	225,000		225,000
Machinery and equipment	157,642		157,642
Accumulated depreciation	(325,243)		(325,243)
Restricted assets		<b>861,918</b>	861,918
Total noncurrent assets	<u>57,399</u>	<b>861,918</b>	<u>919,317</u>
Total assets	<u>151,918</u>	<b>861,918</b>	<u>1,013,836</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows related to pensions			<u>67,215</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts pay able	33,863	176,082	209,945
Accrued salaries	29,222		29,222
Due to other funds	177,190		177,190
Accrued claims incurred but not reported		161,932	161,932
Total current liabilities	<u>240,275</u>	<u>338,014</u>	<u>578,289</u>
<b>Long-term Liabilities</b>			
Net pension liability	<u>272,301</u>		<u>272,301</u>
Total liabilities	<u>512,576</u>	<u>338,014</u>	<u>850,590</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to pensions			<u>10,564</u>
<b>Net Position</b>			
Investment in capital assets	57,399		57,399
Restricted		861,918	861,918
Unrestricted	(361,406)	(338,014)	(699,420)
<b>Total net position</b>	<u>\$ (304,007)</u>	<u>\$ 523,904</u>	<u>\$ 219,897</u>

**CITY OF MURRAY, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN NET POSITION**  
**INTERNAL SERVICE FUNDS**  
For The Year Ended June 30, 2017

	<b>Central Garage</b>	<b>Medical Insurance Fund</b>	<b>Totals</b>
<b>Operating Revenues</b>			
Charges for interfund services	\$ 516,830		\$ 516,830
Contributions to fund		1,380,530	1,380,530
Total operating revenues	<u>516,830</u>	<u>1,380,530</u>	<u>1,897,360</u>
<b>Operating Expenses</b>			
Depreciation	5,585		5,585
Parts rebilled	111,192		111,192
Petroleum products	221,030		221,030
Other garage expenses	159,218		159,218
Claims paid		971,592	971,592
Administrative costs		383,170	383,170
Wellness incentives		22,410	22,410
Total operating expenses	<u>497,025</u>	<u>1,377,172</u>	<u>1,874,197</u>
Operating income (loss)	19,805	3,358	23,163
<b>Non-Operating Revenues (Expenses)</b>			
Interest and dividend income		2,507	2,507
<b>Change in net position</b>	<u>19,805</u>	<u>5,865</u>	<u>25,670</u>
Net position-beginning of year	(323,812)	518,039	194,227
Net position-end of year	<u>\$ (304,007)</u>	<u>\$ 523,904</u>	<u>\$ 219,897</u>

**CITY OF MURRAY, KENTUCKY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
For The Year Ended June 30, 2017

	<b>Central Garage</b>	<b>Medical Insurance Fund</b>	<b>Totals</b>
<b>Cash Flows From Operating Activities</b>			
Cash paid to suppliers	\$ (321,219)		\$ (321,219)
Cash paid to employees	(128,351)	(22,410)	(150,761)
Cash received for premiums		1,380,530	1,380,530
Cash paid for claims		(1,146,510)	(1,146,510)
Cash paid for administrative expenses		(383,170)	(383,170)
Cash received from interfund services provided	484,341		484,341
Net cash provided (used) by operating activities	<u>34,771</u>	<u>(171,560)</u>	<u>(136,789)</u>
<b>Cash Flow From Capital and Related Financing Activities</b>			
Purchase of capital assets	(34,771)		(34,771)
Net cash (used) by capital and related financing activities	<u>(34,771)</u>		<u>(34,771)</u>
<b>Cash Flow From Investing Activities</b>			
Interest and dividends		2,507	2,507
Net cash provided by investing activities		<u>2,507</u>	<u>2,507</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(169,053)</b>	<b>(169,053)</b>
Cash and cash equivalents-beginning		<u>1,030,971</u>	<u>1,030,971</u>
Cash and cash equivalents-ending	\$	\$ 861,918	\$ 861,918
<b>Reconciliation of Operating Income (loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ 19,808	\$ 3,358	\$ 23,163
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	5,888		5,888
Pension expense	387		387
(Increase) Decrease in operating assets:			
Accounts receivable	(32,489)		(32,489)
Material and supplies	1,244		1,244
Increase (Decrease) in operating liabilities:			
Accounts payable	19,019		19,019
Accrued expenses	(39,948)	(174,918)	(214,866)
Due to other funds	61,168		61,168
Net cash provided by operating activities	<u>\$ 34,771</u>	<u>\$ (171,560)</u>	<u>\$ (136,789)</u>

**CITY OF MURRAY, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For The Year Ended June 30, 2017

<b>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Program or Award Amount</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Transportation</b>			
Passed-Through Kentucky Transportation Cabinet:			
Highway Planning and Construction	20.205	\$ 2,660,000	\$ 54,655
State and Community Highway Safety	20.616	<u>15,250</u>	<u>10,297</u>
Total U.S. Department of Transportation		<u>2,675,250</u>	<u>64,952</u>
<b>U.S. Environmental Protection Agency</b>			
Revolving Loan Program with Kentucky Infrastructure Authority			
Capitalization Grants for Clean Water State Revolving Funds	66.458	** <u>\$46,000,000</u>	<u>4,980,992</u>
<b>Total Expenditures of Federal Awards</b>		<b><u>\$ 48,675,250</u></b>	<b><u>\$ 5,045,944</u></b>

\*\* Major Program

**CITY OF MURRAY, KENTUCKY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For The Year Ended June 30, 2017

**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, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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, as applicable, either the cost principles in OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U. S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed 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.

**NOTE 3 - IN-DIRECT COST RATE**

The City of Murray, Kentucky has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

INTERNAL CONTROL AND COMPLIANCE SECTION



**Romaine**  
& Associates, PLLC  
Certified Public Accountants

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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 the City of Murray, Kentucky as of and for the year ended June 30, 2017, 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 11, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the City of Murray, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Romaine & Associates, PLLC*

Mayfield, Kentucky  
January 11, 2018

# **Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance With the Uniform Guidance**

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 the City of Murray, Kentucky's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the City of Murray, Kentucky's major federal programs for the year ended June 30, 2017. The 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 the 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the City of Murray, Kentucky's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the 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, 2017.

### **Report on Internal Control over Compliance**

Management of the 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 the 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 as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Murray, Kentucky's internal control over compliance.

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**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance With the Uniform Guidance (Continued)**

**Report on Internal Control over Compliance (Continued)**

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance We have audited the financial statements 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 and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Murray, Kentucky's basic financial statements. We issued our report thereon dated January 11, 2018 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

*Romaine + Associates, PLLC*

Mayfield, Kentucky  
January 11, 2018

**CITY OF MURRAY, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 June 30, 2017

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Section I- Summary of Auditor's Results

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**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_yes \_\_\_\_\_X\_\_\_\_\_no

Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_yes \_\_\_\_\_X\_\_\_\_\_none reported

Noncompliance material to financial statements noted? \_\_\_\_\_yes \_\_\_\_\_X\_\_\_\_\_no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_yes \_\_\_\_\_X\_\_\_\_\_no

Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_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 uniform guidance 516(a)? \_\_\_\_\_yes \_\_\_\_\_X\_\_\_\_\_no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Clusters
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? \_\_\_\_\_X\_\_\_\_\_yes \_\_\_\_\_no

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Section II- Financial Statement Findings

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No Matters were reported

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Section III- Federal Award Findings and Questioned Costs

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No Matters were reported

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Section III- Prior Year Financial Statement Findings

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**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 re 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)**

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

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Section III- Prior Year Financial Statement Findings (Continued)

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**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 yearend 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.

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Section V- Prior Year Federal Award Findings and Questioned Costs

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No Matters were reported