

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

RECEIVED

DEC 16 2014

IN THE MATTER OF:

APPLICATION OF MURRAY NO. 3 WATER DISTRICT FOR AN ORDER APPROVING A
TRANSFER OF OWNERSHIP AND CONTROL

PUBLIC SERVICE
COMMISSION

**JOINT SUPPLEMENTAL RESPONSE TO PUBLIC SERVICE
COMMISSION'S FIRST REQUEST FOR INFORMATION, #5**

COMES now Murray No. 3 Water District and the City of Murray and for their Joint Supplemental Response To Public Service Commission's First Request For Information, #5 hereby files herewith ten (10) originals of the City of Murray, Kentucky, Audited Financial Statements, June 30, 2014.

Respectfully submitted,



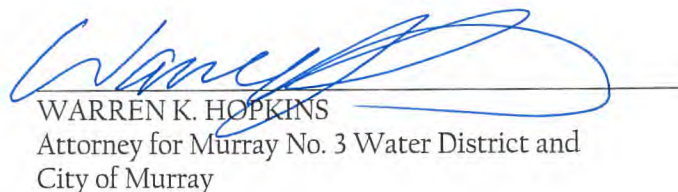
WARREN K. HOPKINS

Attorney at Law
405 Maple Street, Suite B
Murray, KY 42071

Telephone: (270) 759-9504
Facsimile: (270) 759-9821

CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that on the 15th day of December, 2014, a true and correct copy of the foregoing Supplemental Resonse, along with attachments was forwarded via UPS to the Kentucky Public Service Commission, 211 Sower Blvd., Frankfort, KY 40602-0615.



WARREN K. HOPKINS
Attorney for Murray No. 3 Water District and
City of Murray

I certify that the 2014 Audited Financial Statements for the City of Murray, Kentucky is true and accurate to the best of my knowledge, information, and belief.

Warren K. Hopkins

Warren K. Hopkins, Attorney at Law
405 Maple Street, Suite B
Murray, KY 42071
Attorney for Joint Applicants (Murray No. 3 Water District and City of Murray)

RECEIVED

DEC 16 2014

PUBLIC SERVICE
COMMISSION

I, the undersigned Notary Public, do hereby certify that the foregoing instrument was duly, subscribed, acknowledged and sworn to before me by Warren K. Hopkins, who is personally know to me (or proved to me on the basis of satisfactory evidence), as his duly authorized act, on this 12th day of December, 2014.

Dannetta Clayton *Ky*

Notary Public State at Large

My Commission Expires 01-31-16



CITY OF MURRAY, KENTUCKY

AUDITED FINANCIAL STATEMENTS

June 30, 2014

**CITY OF MURRAY, KENTUCKY
TABLE OF CONTENTS**

Introductory Section

City Council and Administrative Staff

Financial Section

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Net Position – Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17
Statement of Fiduciary Funds Net Position	18
Statement of Changes in Fiduciary Net Position	19
Notes to the Basic Financial Statements	20
Required Supplementary Information	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	34
Statement of Funding Progress for Retirees' Health Plan	35

Other Supplementary Information Section

Combining Balance Sheets – Nonmajor Governmental Funds	36
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	37
Combining Statement of Net Position – Internal Service Funds	38
Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds	39
Combining Statement of Cash Flows – Internal Service Funds	40
Schedule of Expenditures of Federal Awards	41
Notes to Schedule of Expenditures of Federal Awards	42

Internal Control and Compliance Section

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	43
Independent Auditor's Report on Compliance with for Each Major Federal Program and on Internal Control Over Compliance Required by <i>OMB Circular A-133</i>	45
Schedule of Findings and Questioned Costs	47
Summary Schedule of Prior Audit Findings	50

INTRODUCTORY SECTION

CITY OF MURRAY, KENTUCKY

June 30, 2014

CITY COUNCIL

Jeremy Bell
Robert Billington
Linda Cherry
Danny Hudspeth
Mike Faihst
Pete Lancaster
Dan Miller
Jason Pittman
Pat Scott
F.T. Butch Seargent
Jane Shoemaker
Greg Taylor

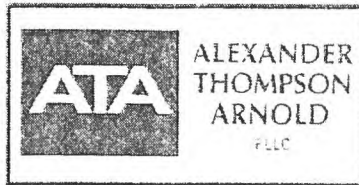
ADMINISTRATIVE STAFF

Bill Wells, Mayor
Matt Mattingly, City Administrator
Alan Lanier, Director of Finance

FINANCIAL SECTION

Members of:

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



Certified Public Accountants
Offices in Tennessee & Kentucky

112-A Robertson Rd.
Murray, KY 42071

Phone 270.753.2424
Fax 270.753.3878
www.atacpa.net

Independent Auditor's Report

Honorable Mayor Bill Wells and
Members of the City Council
City of Murray, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Murray, Kentucky as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Murray, Kentucky, as of June 30, 2014, 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, analysis and budgetary comparison information and schedule of funding progress for retirees health plan on pages 4 – 8, 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Murray's basic financial statements. The introductory section, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2014, on our consideration of the City of Murray, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Murray's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 20, 2014

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, 2014. Please read it in conjunction with the City's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The net position of all City activities are \$52,726,000. This represents an increase of \$1,592,000 (3.1%) over the prior year. This relatively small increase is spread among the governmental and business-type activities. A breakout shows 79% (\$41,645,000) in business-type activities and the remaining 21% (\$11,081,000) in governmental activities.
- Total City activities indicate current assets of \$14,917,000 and current and non-current liabilities of \$11,487,000 giving a positive financial picture for liquidity of \$3,430,000.
- For all governmental funds, total funding sources of \$11,063,000 exceed total expenditures of \$10,304,000 by \$759,000, increasing the reported unassigned fund balance to \$2,912,000.
- For all four business-type activities (Water and Sewer, Natural Gas, Sanitation, and Stormwater) total revenues of \$19,507,000 exceed total expenses of \$18,674,000 by \$833,000, increasing the reported unrestricted fund balance to \$5,076,000.

USING THIS ANNUAL AUDIT

This annual financial report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on page 9 and 10-11) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements begin on page 12. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts as a trustee or agent for the benefit of those outside of the government.

The Statement of Net Position and the Statement of Activities

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

These two statements report the City's net position and changes in them. You can think of the City's net position (what the citizens own) and liabilities (what the citizens owe) as one way to measure the City's financial position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating.

You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's capital assets (roads, buildings, water and sewer lines) to assess the overall health of the City. In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities.

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

THE CITY AS A WHOLE

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

Table 1
Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 4,782	\$ 4,741	\$ 10,135	\$ 9,770	\$ 14,917	\$ 14,511
Capital assets	9,857	7,986	39,439	37,298	49,296	45,284
Total assets	<u>14,639</u>	<u>12,727</u>	<u>49,574</u>	<u>47,068</u>	<u>64,213</u>	<u>59,795</u>
Long-term debt outstanding	1,924	985	5,658	3,740	7,582	4,725
Other liabilities	1,634	1,330	2,271	2,516	3,905	3,846
Total liabilities	<u>3,558</u>	<u>2,315</u>	<u>7,929</u>	<u>6,256</u>	<u>11,487</u>	<u>8,571</u>
Net position						
Net investment in capital assets	8,198	7,001	34,085	33,558	42,283	40,559
Restricted	1,075	1,049	2,484	3,386	3,559	4,435
Unrestricted	<u>1,808</u>	<u>2,362</u>	<u>5,076</u>	<u>3,868</u>	<u>6,884</u>	<u>6,230</u>
Total net position	<u>\$ 11,081</u>	<u>\$ 10,412</u>	<u>\$ 41,645</u>	<u>\$ 40,812</u>	<u>\$ 52,726</u>	<u>\$ 51,224</u>

Governmental Activities

- The largest single receipt category, property taxes, has increased \$127,000 (3.5%) to \$3,738,000.
- The largest total departmental expenditure is the Police Department - \$3,219,000. A year-over-year comparison shows an increase of \$238,000 or 8.0%.
- Grant receipts for the year are \$1,212,000 – a 67% increase from the prior year.
- Interest income of \$34,000 accounts for only 0.3% of total General Fund receipts.

Business-type Activities

Murray Water and Sewer System

- The Water and Sewer System's total operating revenues are \$5,766,000. When compared to the total operating expenses of \$5,860,000, an operating loss of \$94,000 exists.
- The change in net position is negative \$42,000 when non-operating revenues (\$157,000) and transfers to other funds (\$105,000) are considered.

Table 2
Changes in Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 2,462	\$ 1,218	\$ 19,136	\$ 15,283	\$ 21,598	\$ 16,501
Grants	1,212	727	250	421	1,462	1,148
General revenues:						
Property taxes	3,738	3,612	-	-	3,738	3,612
Franchise taxes	181	255	-	-	181	255
Payments in lieu of taxes	85	17	-	-	85	17
Bank shares	155	111	-	-	155	111
Insurance tax	1,903	1,976	-	-	1,903	1,976
School tax	41	41	-	-	41	41
Base court revenue	-	14	-	-	-	14
Telephone line charges	153	145	-	-	153	145
Transient room tax	-	217	-	-	-	217
Intergovernmental	418	396	-	-	418	396
Interest and investment earnings	34	43	100	123	134	166
Gain (loss) on sale of assets	(1)	(239)	5	27	4	(212)
Miscellaneous	367	1,154	331	390	698	1,544
Transfers	315	315	(315)	(315)	-	-
Total revenues	<u>11,063</u>	<u>10,002</u>	<u>19,507</u>	<u>15,929</u>	<u>30,570</u>	<u>25,931</u>
Program Expenses						
General government	1,596	763	-	-	1,596	763
Community development	666	741	-	-	666	741
Police department	3,219	2,981	-	-	3,219	2,981
Fire department	2,973	2,734	-	-	2,973	2,734
Animal control	-	4	-	-	-	4
Street department	1,089	626	-	-	1,089	626
Tourism	272	288	-	-	272	288
Municipal aid	254	83	-	-	254	83
E-911	108	78	-	-	108	78
Alcohol beverage control	93	69	-	-	93	69
Drug court awards	5	16	-	-	5	16
Loss on sale of investments	-	1	-	-	-	1
Unallocated interest expense	29	19	-	-	29	19
Water and sewer	-	-	5,957	5,542	5,957	5,542
Natural gas	-	-	10,151	7,739	10,151	7,739
Sanitation	-	-	2,367	2,270	2,367	2,270
Stormwater	-	-	199	179	199	179
Total expenses	<u>10,304</u>	<u>8,403</u>	<u>18,674</u>	<u>15,730</u>	<u>28,978</u>	<u>24,133</u>
Increase (decrease) in net position	<u>\$ 759</u>	<u>\$ 1,599</u>	<u>\$ 833</u>	<u>\$ 199</u>	<u>\$ 1,592</u>	<u>\$ 1,798</u>

Murray Natural Gas System

- The Gas System's total operating revenues are \$11,007,000. When compared to the total operating expenses of \$10,141,000, operating income of \$866,000 exists.
- The change in net position is positive \$814,000 when non-operating revenues (\$53,000) and transfers to other funds (\$105,000) are considered.

Sanitation Department

- The Sanitation Department's total operating revenues are \$2,463,000. When compared to the total operating expenses of \$2,367,000, operating income of \$96,000 exists.
- The change in net position is a positive \$27,000 when non-operating revenues (\$36,000) and transfers to other funds (\$105,000) are considered.

Stormwater Utility

- The Stormwater Utility's total operating revenues are \$230,000. When compared to the total operating expenses of \$199,000, operating income of \$31,000 exists.
- The change in net position is a positive \$33,000 when non-operating revenues (\$2,000) is considered.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

- In Governmental Activities, additions to property, plant and equipment totals \$2,266,000. A breakdown of the additions indicates \$1,031,000 is due to machinery and equipment, \$184,000 is due to land, and \$1,173,000 is due to infrastructure.
- In the Business-type Activities, additions to property, plant and equipment total \$4,157,000. A breakdown of the additions indicates \$3,530,000 is due to utility plant, \$515,000 is due to machinery and equipment, \$82,000 is due drainage improvement, and \$22,000 is due to buildings. Total disposals of \$76,000 include \$21,000 from machinery and equipment and \$55,000 from utility plant

Debt

- \$891,000 of new debt in General Governmental Activities has been issued during the fiscal year for the purchase of fire trucks.
- \$2,063,000 of new debt in Business-type Activities has been issued during the fiscal year for engineering and other services related to the Waste Water Treatment Plant improvements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Preliminary data for the City in fiscal year 2015 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 crowd out spending in operational areas and on capital projects. Challenges in finding the proper funding for Public Safety capital spending and Waste Water Treatment Plant facility upgrades, as well as sustained, long-term profitability of the Sanitation Department continue to be concerns. As always, the City is constantly monitoring many factors present in today's economy and adjusting funding and expenditure measures accordingly. The City cannot rule out increased funding through taxes, fees, and charges for goods and services. However, continuing to optimize internal and external efficiencies will be emphasized in the search to provide the greatest benefit to our stakeholders at the lowest possible cost.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Respectfully submitted,

Alan D. Lanier

Finance Director

BASIC FINANCIAL STATEMENTS

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash in banks and on hand	\$ 2,890,702	\$ 5,670,939	\$ 8,561,641
Investments at fair value	75,728	-	75,728
Receivables (net of allowance for uncollectible)			
Taxes	466,613	-	466,613
Customer	-	976,595	976,595
Other	357,025	7,924	364,949
Internal balances	(143,380)	143,380	-
Materials and supplies, at average cost	60,342	458,013	518,355
Net capital assets	9,857,359	39,439,278	49,296,637
Restricted assets	1,074,853	2,877,750	3,952,603
Total assets	14,639,242	49,573,879	64,213,121
Liabilities			
Accounts payable	997,082	1,137,888	2,134,970
Accrued salaries and wages	162,681	113,494	276,175
Other accrued liabilities	358,108	72,409	430,517
Customer deposits	-	569,365	569,365
Accrued interest payable	-	177,120	177,120
Noncurrent liabilities			
Due within one year	682,605	444,549	1,127,154
Due in more than one year:			
Accrued compensated absences	116,038	201,299	317,337
Notes payable	1,241,768	4,761,001	6,002,769
Bonds payable	-	452,000	452,000
Total liabilities	3,558,282	7,929,125	11,487,407
Net Position			
Net investment in capital assets	8,198,191	34,084,682	42,282,873
Restricted for			
CDBG housing	57,264	-	57,264
Special purposes	540,918	-	540,918
Employee benefits	476,671	-	476,671
Debt service	-	2,164,956	2,164,956
Landfill postclosure reserve	-	319,350	319,350
Unrestricted	1,807,916	5,075,766	6,883,682
Total net position	\$ 11,080,960	\$ 41,644,754	\$ 52,725,714

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>(Expense)</u>
					<u>Total</u>
Governmental activities					
General government	\$ 1,595,352	\$ 1,197,839	\$ -	\$ 28,070	\$ (369,443)
Community development	665,668	-	-	877,833	212,165
Police department	3,219,286	-	161,964	-	(3,057,322)
Fire department	2,973,118	-	143,926	-	(2,829,192)
Street department	1,089,133	-	-	-	(1,089,133)
Tourism	271,903	242,155	-	-	(29,748)
Municipal aid	254,626	-	-	-	(254,626)
E-911	108,457	-	-	-	(108,457)
Alcohol beverage control	92,676	1,022,177	-	-	929,501
Drug court awards	5,264	-	-	-	(5,264)
Unallocated interest expense	28,555	-	-	-	(28,555)
Total governmental activities	<u>10,304,038</u>	<u>2,462,171</u>	<u>305,890</u>	<u>905,903</u>	<u>(6,630,074)</u>
Business-type activities					
Water and sewer	5,956,905	5,501,160	-	224,297	(231,448)
Natural gas	10,151,949	10,962,845	-	-	810,896
Sanitation	2,366,556	2,441,485	-	25,500	100,429
Stormwater	198,812	230,297	-	-	31,485
Total business-type activities	<u>18,674,222</u>	<u>19,135,787</u>	<u>-</u>	<u>249,797</u>	<u>711,362</u>
Total primary government	<u>\$ 28,978,260</u>	<u>\$ 21,597,958</u>	<u>\$ 305,890</u>	<u>\$ 1,155,700</u>	<u>\$ (5,918,712)</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, 2014

	Governmental Activities	Business- type Activities	Total
Changes in Net Position			
Net revenue (expense)	\$ (6,630,074)	\$ 711,362	\$ (5,918,712)
General Revenues			
Taxes			
Property taxes	3,738,422	-	3,738,422
Franchise taxes	180,591	-	180,591
Payments in lieu of taxes	85,118	-	85,118
Bank shares	155,496	-	155,496
Insurance tax	1,903,384	-	1,903,384
School tax	40,681	-	40,681
Telephone line charges	153,011	-	153,011
Intergovernmental	417,828	-	417,828
Interest and investments earnings	33,917	100,218	134,135
Gain (loss) on disposal of assets	(1,473)	4,760	3,287
Miscellaneous	367,359	331,255	698,614
Transfers	315,000	(315,000)	-
Total general revenues and transfers	7,389,334	121,233	7,510,567
Change in net position	759,260	832,595	1,591,855
Net position - beginning of period	10,411,700	40,812,159	51,223,859
Prior period adjustment	(90,000)	-	(90,000)
Net position - end of period	\$ 11,080,960	\$ 41,644,754	\$ 52,725,714

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

CITY OF MURRAY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,747,881	\$ 142,821	\$ 2,890,702
Receivables			
Taxes (net of allowance for uncollectibles of \$191,075)	466,613	-	466,613
Due from other funds	522,536	96,130	618,666
Other	58,020	265,992	324,012
Restricted assets	133,394	464,788	598,182
Total assets	\$ 3,928,444	\$ 969,731	\$ 4,898,175
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 651,450	\$ 21,526	\$ 672,976
Due to other funds	76,130	515,213	591,343
Accrued salaries payable	155,138	2,948	158,086
Total liabilities	882,718	539,687	1,422,405
Fund Balances			
Restricted	133,394	673,155	806,549
Assigned	-	(243,111)	(243,111)
Unassigned	2,912,332	-	2,912,332
Total fund balances	3,045,726	430,044	3,475,770
Total liabilities and fund balances	\$ 3,928,444	\$ 969,731	\$ 4,898,175

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

Total governmental fund balances	\$ 3,475,770
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	9,818,805
Internal service funds are used by management to charge the costs of certain activities, such as insurance and transportation costs, to individual funds. The assets and liabilities of certain internal funds are included in governmental activities in the statement of net assets	(201,601)
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	(2,012,014)
Net position of governmental activities	\$ 11,080,960

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENT FUNDS

For the Year Ended June 30, 2014

	General	Other Governmental	Total Governmental
Revenues			
Property taxes	\$ 3,738,422	\$ -	\$ 3,738,422
Insurance tax	1,903,384	-	1,903,384
Vehicle license tax	772,303	-	772,303
Franchise taxes	180,591	-	180,591
Occupational business licenses	291,976	-	291,976
Payments in lieu of taxes	85,118	-	85,118
Bank shares	155,496	-	155,496
License and permits	60,927	-	60,927
Fines and fees	9,355	-	9,355
Telephone line charges	-	153,011	153,011
Intergovernmental revenue	10,000	408,229	418,229
Interest	27,465	3,686	31,151
Alcoholic beverage fees	-	1,022,177	1,022,177
Miscellaneous income	232,764	85,215	317,979
Grant funds received	1,211,470	-	1,211,470
Transient room tax	-	242,155	242,155
Total revenues	8,679,271	1,914,473	10,593,744
Expenditures			
Current			
General government	1,626,118	-	1,626,118
Police department	3,107,811	-	3,107,811
Fire department	2,852,253	-	2,852,253
Street department	757,012	254,626	1,011,638
Planning and zoning	327,485	-	327,485
E-911	-	108,457	108,457
Tourism commission	-	252,358	252,358
Freedom fest	-	15,470	15,470
Drug court awards	-	5,264	5,264
Alcoholic beverage control	-	92,676	92,676
Capital outlay	2,082,639	274,890	2,357,529
Debt service			
Principal	184,366	32,083	216,449
Interest	27,638	917	28,555
Total expenditures	10,965,322	1,036,741	12,002,063
Revenues over (under) expenditures	(2,286,051)	877,732	(1,408,319)
Other Financing Sources (Uses)			
Proceeds from debt	890,800	-	890,800
Transfers from other funds	1,415,000	-	1,415,000
Transfers to other funds	-	(1,100,000)	(1,100,000)
Total other financing sources (uses)	2,305,800	(1,100,000)	1,205,800
Net change in fund balance	19,749	(222,268)	(202,519)
Fund balance, beginning of year	2,727,525	652,312	3,379,837
Prior period adjustment	298,452	-	298,452
Fund balance, end of year	\$ 3,045,726	\$ 430,044	\$ 3,475,770

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, 2014

Net change in fund balances - total governmental funds	\$ (202,519)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,877,436
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	91,875
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Debt issued	(890,800)
Principal payments on debt	216,449
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.	(10,501)
Internal service funds are used by management to charge the costs of certain activities, such as central garage services and employee health insurance, to individual funds. The net revenue (expense) of these internal service funds is reported with governmental activities.	<u>(322,680)</u>
Change in net position of governmental activities	<u>\$ 759,260</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business-type Activities					Governmental Activities
	Water and Sewer	Gas	Sanitation	Stormwater	Totals	Internal Service
Assets						
Current Assets						
Cash and cash equivalents	\$ 12,725	\$ 5,488,486	\$ -	\$ 169,728	\$ 5,670,939	\$ -
Receivables (net of allowances for uncollectibles)						
Customer	366,337	425,669	170,686	13,903	976,595	-
Other funds	-	1,217,736	-	-	1,217,736	33,014
Miscellaneous	5,110	1,548	651	615	7,924	-
Investments, at fair value	-	-	-	-	-	75,728
Materials and supplies - at average cost	286,977	171,036	-	-	458,013	60,342
Total current assets	<u>671,149</u>	<u>7,304,475</u>	<u>171,337</u>	<u>184,246</u>	<u>8,331,207</u>	<u>169,084</u>
Non-Current Assets						
Utility plant in service	57,008,706	6,942,017	-	-	63,950,723	-
Land	429,610	908,010	54,524	-	1,392,144	-
Buildings	832,080	1,221,175	314,723	-	2,367,978	225,000
Machinery and equipment	432,365	386,300	-	-	818,665	117,871
Vehicles	771,076	611,752	4,283,808	35,116	5,701,752	-
Other equipment	1,270,179	1,253,445	56,421	38,809	2,618,854	-
Drainage improvement	-	-	-	1,681,277	1,681,277	-
Accumulated depreciation	(29,602,416)	(5,710,114)	(3,592,528)	(187,057)	(39,092,115)	(304,317)
Restricted assets	2,166,157	392,243	319,350	-	2,877,750	476,671
Total non-current assets	<u>33,307,757</u>	<u>6,004,828</u>	<u>1,436,298</u>	<u>1,568,145</u>	<u>42,317,028</u>	<u>515,225</u>
Total assets	<u>33,978,906</u>	<u>13,309,303</u>	<u>1,607,635</u>	<u>1,752,391</u>	<u>50,648,235</u>	<u>684,309</u>
Liabilities						
Current Liabilities						
Accounts payable	503,597	471,472	149,669	13,150	1,137,888	354,106
Accrued salaries and wages	60,440	29,796	20,778	2,480	113,494	4,595
Accrued compensated absences	139,987	41,470	118,073	3,424	302,954	28,397
Accrued liabilities	15,718	54,433	2,258	-	72,409	328,108
Due to other funds	801,472	27,324	245,560	-	1,074,356	170,704
Current portion of bonds/notes payable	141,595	-	-	-	141,595	-
Customer deposits	210,245	359,120	-	-	569,365	-
Accrued interest						
Bonds	14,939	-	-	-	14,939	-
Customer deposits	63,864	98,317	-	-	162,181	-
Total current liabilities	<u>1,951,857</u>	<u>1,081,932</u>	<u>536,338</u>	<u>19,054</u>	<u>3,589,181</u>	<u>885,910</u>
Non-Current Liabilities						
Accrued compensated absences	100,632	61,893	38,774	-	201,299	-
Notes payable	4,761,001	-	-	-	4,761,001	-
Bonds payable	452,000	-	-	-	452,000	-
Total non-current liabilities	<u>5,313,633</u>	<u>61,893</u>	<u>38,774</u>	<u>-</u>	<u>5,414,300</u>	<u>-</u>
Total liabilities	<u>7,265,490</u>	<u>1,143,825</u>	<u>575,112</u>	<u>19,054</u>	<u>9,003,481</u>	<u>885,910</u>
Net Position						
Net investment in capital assets	25,787,004	5,612,585	1,116,948	1,568,145	34,084,682	38,554
Restricted						
Employee benefit trust	-	-	-	-	-	552,399
Debt service	2,164,956	-	-	-	2,164,956	-
Landfill postclosure reserve	-	-	319,350	-	319,350	-
Unrestricted	(1,238,544)	6,552,893	(403,775)	165,192	5,075,766	(792,554)
Total net position	<u>\$ 26,713,416</u>	<u>\$ 12,165,478</u>	<u>\$ 1,032,523</u>	<u>\$ 1,733,337</u>	<u>\$ 41,644,754</u>	<u>\$ (201,601)</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Business-type Activities					Governmental Activities
	Water and Sewer	Gas	Sanitation	Stormwater	Totals	Internal Service
Operating Revenues						
Charges for services	\$ 5,353,056	\$ 10,871,352	\$ 2,441,485	\$ 230,297	\$ 18,896,190	\$ -
Interfund services provided	-	-	-	-	-	831,056
Tap-on fees	148,104	91,493	-	-	239,597	-
Miscellaneous revenues	265,290	44,377	21,438	150	331,255	-
Contributions to medical insurance fund	-	-	-	-	-	1,791,684
Total operating revenues	<u>5,766,450</u>	<u>11,007,222</u>	<u>2,462,923</u>	<u>230,447</u>	<u>19,467,042</u>	<u>2,622,740</u>
Operating expenses						
Water plant expenses	832,983	-	-	-	832,983	-
Sewer plant expenses	1,302,729	-	-	-	1,302,729	-
Water and sewer field operations	922,620	-	-	-	922,620	-
Gas purchased	-	7,742,255	-	-	7,742,255	-
Engineering operations	313,485	282,050	-	-	595,535	-
General office operations	564,895	515,033	-	-	1,079,928	-
Administrative expenses	508,637	173,905	-	-	682,542	467,642
Other operating expenses	1,675	99,655	-	-	101,330	869,498
Depreciation	1,413,400	329,803	208,950	44,440	1,996,593	8,924
Gas plant expenses	-	998,466	-	-	998,466	-
Transfer station and landfill expenses	-	-	2,157,606	-	2,157,606	-
Stormwater expenses	-	-	-	154,372	154,372	-
Medical claims paid	-	-	-	-	-	1,600,660
Total operating expenses	<u>5,860,424</u>	<u>10,141,167</u>	<u>2,366,556</u>	<u>198,812</u>	<u>18,566,959</u>	<u>2,946,724</u>
Operating income (loss)	<u>(93,974)</u>	<u>866,055</u>	<u>96,367</u>	<u>31,635</u>	<u>900,083</u>	<u>(323,984)</u>
Non-operating Revenues (Expenses)						
Interest and dividend income	29,188	59,242	10,315	1,473	100,218	2,777
Interest expense	(96,481)	(10,782)	-	-	(107,263)	-
Gain (loss) on sale of assets	-	4,760	-	-	4,760	(1,473)
Grant income	224,297	-	25,500	-	249,797	-
Total non-operating revenues (expenses)	<u>157,004</u>	<u>53,220</u>	<u>35,815</u>	<u>1,473</u>	<u>247,512</u>	<u>1,304</u>
Income (loss) before transfers	63,030	919,275	132,182	33,108	1,147,595	(322,680)
Operating Transfers						
From (to) other funds	(105,000)	(105,000)	(105,000)	-	(315,000)	-
Change in net position	<u>(41,970)</u>	<u>814,275</u>	<u>27,182</u>	<u>33,108</u>	<u>832,595</u>	<u>(322,680)</u>
Net position, beginning of year	<u>26,755,386</u>	<u>11,351,203</u>	<u>1,005,341</u>	<u>1,700,229</u>	<u>40,812,159</u>	<u>121,079</u>
Net position, end of year	<u>\$ 26,713,416</u>	<u>\$ 12,165,478</u>	<u>\$ 1,032,523</u>	<u>\$ 1,733,337</u>	<u>\$ 41,644,754</u>	<u>\$ (201,601)</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, 2014

	Business-type Activities					Governmental Activities
	Water and Sewer	Gas	Sanitation	Stormwater	Totals	Internal Service
Cash Flows From Operating Activities						
Cash received from customers	\$ 5,709,081	\$ 10,920,155	\$ 2,470,235	\$ 230,787	\$ 19,330,258	\$ -
Cash paid to suppliers	(1,348,449)	(8,244,228)	(581,034)	(74,694)	(10,248,405)	(514,465)
Cash paid for employees and benefits	(2,228,466)	(1,497,847)	(971,868)	(74,936)	(4,773,117)	(217,425)
Cash received from interfund services provided	-	-	-	-	-	849,904
Cash paid for internal services used	(162,882)	(98,953)	(293,105)	(2,680)	(557,620)	-
Customer deposits received (refunded)	(810)	12,140	-	-	11,330	-
Net cash provided by operating activities	<u>1,968,474</u>	<u>1,091,267</u>	<u>624,228</u>	<u>78,477</u>	<u>3,762,446</u>	<u>118,014</u>
Cash Flows From Noncapital Financing Activities						
Transfers to other funds	(105,000)	(105,000)	(105,000)	-	(315,000)	-
Landfill closure costs funded	-	-	(27,100)	-	(27,100)	-
Project expenses paid for other funds	-	(1,217,736)	-	-	(1,217,736)	-
Non-capital state grant received	224,297	-	25,500	-	249,797	-
Net cash provided (used) by noncapital financing activities	<u>119,297</u>	<u>(1,322,736)</u>	<u>(106,600)</u>	<u>-</u>	<u>(1,310,039)</u>	<u>-</u>
Cash Flows From Capital And Related Financing Activities						
Proceeds from sale of capital assets	-	23,572	-	-	23,572	-
Acquisition and construction of capital assets	(3,667,275)	(312,826)	(40,433)	(136,046)	(4,156,580)	(1,269)
Proceeds from debt	2,063,232	-	-	-	2,063,232	-
Principal paid on capital debt	(448,385)	-	-	-	(448,385)	-
Interest paid on capital debt	(91,090)	-	-	-	(91,090)	-
Interest paid on customer deposits	(4,432)	(5,466)	-	-	(9,898)	-
Net cash used by capital and related financing activities	<u>(2,147,950)</u>	<u>(294,720)</u>	<u>(40,433)</u>	<u>(136,046)</u>	<u>(2,619,149)</u>	<u>(1,269)</u>
Cash Flows From Investing Activities						
Interest and dividends	29,188	59,242	10,315	1,473	100,218	2,777
Purchase of investments	-	-	-	-	-	(51,387)
Proceeds from sale or maturities of investments	-	1,800,000	450,000	-	2,250,000	47,962
Net cash provided (used) by investing activities	<u>29,188</u>	<u>1,859,242</u>	<u>460,315</u>	<u>1,473</u>	<u>2,350,218</u>	<u>(648)</u>
Net increase (decrease) in cash and cash equivalents	(30,991)	1,333,053	937,510	(56,096)	2,183,476	116,097
Cash and cash equivalents at beginning of year	<u>2,209,873</u>	<u>4,547,676</u>	<u>(937,510)</u>	<u>225,824</u>	<u>6,045,863</u>	<u>360,574</u>
Cash and cash equivalents at end of year	<u>\$ 2,178,882</u>	<u>\$ 5,880,729</u>	<u>\$ -</u>	<u>\$ 169,728</u>	<u>\$ 8,229,339</u>	<u>\$ 476,671</u>
Cash and cash equivalents are included on the Statement of Net Position as:						
Cash and cash equivalents	\$ 12,725	\$ 5,488,486	\$ -	\$ 169,728	\$ 5,670,939	\$ -
Restricted assets	<u>2,166,157</u>	<u>392,243</u>	<u>-</u>	<u>-</u>	<u>2,558,400</u>	<u>476,671</u>
Total	<u>\$ 2,178,882</u>	<u>\$ 5,880,729</u>	<u>\$ -</u>	<u>\$ 169,728</u>	<u>\$ 8,229,339</u>	<u>\$ 476,671</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	(93,974)	866,055	96,367	31,635	900,083	(323,984)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation expense	1,413,400	329,803	208,950	44,440	1,996,593	8,924
(Increase) Decrease in certain assets:						
Receivables - customers	(52,259)	(85,608)	7,963	955	(128,949)	-
Receivables - other	(5,110)	(1,459)	(651)	(615)	(7,835)	(9,156)
Inventory	(82,494)	(29,331)	-	-	(111,825)	(5,436)
Increase (Decrease) in certain liabilities:						
Accounts payable	(37,770)	(71,246)	72,016	(1,619)	(38,619)	211,397
Accrued expenses	26,019	55,745	(5,977)	3,681	79,468	65,565
Customer deposits	(810)	12,140	-	-	11,330	-
Due to other funds	<u>801,472</u>	<u>15,168</u>	<u>245,560</u>	<u>-</u>	<u>1,062,200</u>	<u>170,704</u>
Net cash provided by operating activities	<u>\$ 1,968,474</u>	<u>\$ 1,091,267</u>	<u>\$ 624,228</u>	<u>\$ 78,477</u>	<u>\$ 3,762,446</u>	<u>\$ 118,014</u>

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

CITY OF MURRAY, KENTUCKY
 STATEMENT OF NET POSITION
 FIDUCIARY FUNDS
 June 30, 2014

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	
	<u>Employee Retirement</u>	<u>Cemetery</u>	<u>Totals</u>
Assets			
Restricted assets			
Cash	\$ 31,743	\$ 6,022	\$ 37,765
Investments, at fair value	<u>967,383</u>	<u>159,001</u>	<u>1,126,384</u>
Total assets	999,126	165,023	1,164,149
Liabilities			
Accounts payable	<u>-</u>	<u>4,168</u>	<u>4,168</u>
Net Position			
Assets held in trust for pension benefits and other purposes	<u>\$ 999,126</u>	<u>\$ 160,855</u>	<u>\$ 1,159,981</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, 2014

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	
	<u>Employee Retirement</u>	<u>Cemetery</u>	<u>Totals</u>
Additions			
Contributions	\$ 156,372	\$ -	\$ 156,372
Cemetery sales	-	42,295	42,295
Investment income			
Interest and dividends	27,206	9,377	36,583
Net increase in fair value of investments	79,506	-	79,506
Gain on sale of assets	14,415	-	14,415
	<u>277,499</u>	<u>51,672</u>	<u>329,171</u>
Deductions			
Benefits	176,052	-	176,052
Administrative expenses	6,295	23,716	30,011
Repairs and maintenance	-	30,558	30,558
Total deductions	<u>182,347</u>	<u>54,274</u>	<u>236,621</u>
Changes in net position	95,152	(2,602)	92,550
Net position, beginning of the year	<u>903,974</u>	<u>163,457</u>	<u>1,067,431</u>
Net position, end of the year	<u>\$ 999,126</u>	<u>\$ 160,855</u>	<u>\$ 1,159,981</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, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

B. Basis of Presentation – Fund Accounting

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

Governmental funds

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

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

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

Proprietary funds

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

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

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

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Fiduciary funds

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

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

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

C. Basis of Accounting and Measurement Focus

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

F. Investments

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. Investments are stated at cost, which approximates market, in all funds except the Police and Firemen's Pension Fund and the Medical Insurance Fund. Investments for these two funds are stated at fair value.

G. Due To and Due From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

H. Capital Assets

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

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 \$500 with an estimated useful life greater than one year. Donated capital assets are recorded at estimated fair market value at the date of donation. Estimated historical cost was used to value infrastructure assets acquired prior to July 1, 2002, in the governmental activities. Depreciation expense is recorded in the statement of activities, and accumulated depreciation is reflected in the statement of net position.

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

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

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

I. Restricted Assets

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

J. 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 as liabilities 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.

K. Compensated Absences

Under terms of employment, the City provides full-time employees with paid vacation and sick leave in varying amounts based on years of service. Employees who have accrued 36 days unused sick leave at the end of the fiscal year are paid for 75% of the sick leave accrued. Employees who have

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

met the minimum accruals and have one or more days of sick leave are paid 50% of the sick leave accrued at the end of the fiscal year. All unused sick leave may be carried forward to apply toward the maximum accrual of 180 days. Employees who have successfully met retirement requirements and have received approval for retirement from the Kentucky Retirement System may elect to either be compensated for 50% of accrued sick leave or apply toward early retirement.

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

L. Equity Classification

Government-wide Statements – Equity is classified as net position and is 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.

Fund Statements – 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, 2014, 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 OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

M. 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.

N. 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.

O. Impact of Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. The adoption of GASB 65 had no effect on the City's net position.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions,

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact that the adoption of Statement 68 will have on the City's financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets and the Budgetary Process

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

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

B. Deficits in Fund Equity

A deficit of \$93,150 exists in the Central Garage Fund as of June 30, 2014, resulting from excess expenditures incurred. The Medical Insurance Fund had a deficit net position of \$108,451 as a result of the accrual for incurred but unreported medical claims. The general fund is liable for any deficit in these funds and provides transfers when cash is required, but not for accruals based on an estimate of future liability. The Alcoholic Beverage Control Fund also had a deficit fund balance of \$76,797 as of June 30, 2014, as a result of accruing transfers due to the General Fund for estimated costs of administering and enforcing the City's alcohol related ordinances.

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

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

covered by collateral held by the City's agent in the City's name. At June 30, 2014, 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 and the Medical Insurance Fund. Investments for the Police and Fireman's Pension Fund and the Medical Insurance Fund totaled \$967,383 and \$75,728, respectively, at June 30, 2014, and are summarized below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>Moody's Rating</u>
FNMA	\$ 75,728	7.3%	AAA
FHLMC	127,094	12.2%	AAA
Goldman Sachs	56,803	5.4%	Baa1
Merrill Lynch	27,192	2.6%	Baa3
IBM	51,157	4.9%	Aa3
HSBC	26,773	2.6%	Baa1
Verizon	51,838	5.0%	Baa1
Common Stock	485,288	46.5%	Unrated
Mutual Funds	141,237	13.5%	Unrated
	<u>\$ 1,043,110</u>	100.0%	

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2014, 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, 2014, the City had four instances of investments with a single issuer exceeding 5% of total investments, as shown in the above table.

C. Property Taxes

The City is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state legislation. The property assessment date is January 1, with taxes levied on September 30 and due on October 31. Property taxes receivable as of June 30, 2014, are composed of the following:

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Year of Levy		
2013	\$	437,104
2012		60,534
2011		37,474
2010		30,472
2009		23,278
2008		19,093
2007		10,988
2006 and prior		38,745
Total property taxes receivable		657,688
Less allowance for uncollectibles		(191,075)
Net property taxes receivable	\$	466,613

D. Interfund Transactions

As of June 30, 2014, interfund receivables and payables for interfund activity related to operating expenses were as follows:

	Due from	Due to
Governmental Funds:		
General Fund	\$ 522,537	\$ 76,130
Alcoholic Beverage Control	20,000	511,000
Tourism	76,130	4,213
Internal Service Funds:		
Central Garage	-	170,704
Proprietary Funds:		
Natural Gas	1,217,736	27,324
Water and Sewer	-	801,472
Sanitation	-	245,560
Total transfers	\$ 1,836,403	\$ 1,836,403

The following transfers were made during the year:

Transfer from:	Transfer to:	Purpose	Amount
E-911	General	Administration	\$ 100,000
Water and Sewer	General	General operations	105,000
Natural Gas	General	General operations	105,000
Sanitation	General	General operations	105,000
Alcoholic Beverage Control	General	General operations	1,000,000
			\$ 1,415,000

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

E. Property, Plant, and Equipment

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2014</u>
Governmental Activities				
Land	\$ 444,589	\$ 184,350	\$ -	\$ 628,939
Capital assets being depreciated				
Buildings	1,233,280	62,134	(100,000)	1,195,414
Machinery and equipment	3,177,513	1,031,056	-	4,208,569
Infrastructure	8,575,443	1,173,131	-	9,748,574
Total being depreciated	<u>12,986,236</u>	<u>2,266,321</u>	<u>(100,000)</u>	<u>15,152,557</u>
Less accumulated depreciation:				
Buildings	753,854	22,828	(10,000)	766,682
Machinery and equipment	3,072,658	295,959	-	3,368,617
Infrastructure	1,618,610	170,228	-	1,788,838
Total accumulated depreciation	<u>5,445,122</u>	<u>489,015</u>	<u>(10,000)</u>	<u>5,924,137</u>
Net being depreciated	<u>7,541,114</u>	<u>1,777,306</u>	<u>(90,000)</u>	<u>9,228,420</u>
Net capital assets - governmental	<u>\$ 7,985,703</u>	<u>\$ 1,961,656</u>	<u>\$ (90,000)</u>	<u>\$ 9,857,359</u>

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2014</u>
Business-type Activities				
Land	\$ 1,385,144	\$ 7,000	\$ -	\$ 1,392,144
Buildings	2,345,484	22,494	-	2,367,978
Machinery and equipment	8,644,995	515,080	(20,804)	9,139,271
Drainage improvement	1,599,278	81,999	-	1,681,277
Utility plant	60,476,245	3,530,008	(55,530)	63,950,723
Totals at historical cost	<u>74,451,146</u>	<u>4,156,581</u>	<u>(76,334)</u>	<u>78,531,393</u>
Less accumulated depreciation				
Buildings	1,376,515	78,022	-	1,454,537
Machinery and equipment	6,385,686	491,087	(20,804)	6,855,969
Drainage improvement	125,516	40,659	-	166,175
Utility plant	29,265,326	1,386,826	(36,718)	30,615,434
Total accumulated depreciation	<u>37,153,043</u>	<u>1,996,594</u>	<u>(57,522)</u>	<u>39,092,115</u>
Net capital assets - business-type	<u>\$ 37,298,103</u>	<u>\$ 2,159,987</u>	<u>\$ (18,812)</u>	<u>\$ 39,439,278</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 44,060
Police department	106,236
Fire department	111,194
Street department	<u>227,525</u>
Total	<u>\$ 489,015</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

F. Restricted Assets

The City of Murray maintains certain special funds restricted by the provisions of bond resolutions, loan agreements, or state and federal laws and regulations. Restricted assets at June 30, 2014, consisted of the following cash accounts:

Governmental activities	
General fund - CDBG Housing	\$ 57,264
Special revenue funds	540,918
Employee benefits	476,671
Total	1,074,853
Business-type activities	
Water and Sewer - Meter deposits	1,201
Bond and interest reserve	2,164,956
Natural Gas - Meter deposits	392,243
Sanitation - Landfill postclosure reserve	319,350
Total	2,877,750
Total restricted assets	\$ 3,952,603

G. Retirement Plans

The City of Murray is a participant in the County Employees Retirement System (CERS). This is a cost-sharing, multiple-employer defined benefit plan. CERS is administered by the Kentucky Retirement Systems Board of Trustees in accordance with the provisions of KRS 78.510-78.852. CERS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

On August 1, 1988, the city adopted an ordinance to participate in the hazardous service coverage of CERS, as provided by KRS 78.530. That covered all current employees of the police and fire departments, and 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, which had net plan assets with a market value of \$999,126 as of June 30, 2014.

Under provisions of state statutes, all full-time hazardous position employees are required to contribute 8% (9% for those full-time hazardous position employees hired on or after September 1, 2008) of their gross earnings to the plan and the City is required to contribute 35.70% of covered payroll. The contribution requirement for the year ended June 30, 2014, was \$1,255,208, which consisted of \$1,024,463 from the City and \$230,745 from employees.

All other employees of the City are covered under CERS as nonhazardous position employees. These employees are required to contribute 5.00% of their gross earnings to the plan and the City is required to contribute 18.89% of covered payroll. CERS members hired on or after September 1, 2008, are required to contribute an additional 1% of their salaries to CERS. The contribution requirement for the year ended June 30, 2014, was \$1,060,015, which consisted of \$832,273 from the City and \$227,742 from employees. All pension, death and disability benefits are determined by state statutes.

Annual covered payroll for employees covered by CERS for the year ended June 30, 2014, was \$6,816,785. The City's total payroll was \$7,695,336.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Three-year trend information for the City's contribution requirement to CERS is as follows:

Fiscal Year Ending	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$1,856,736	100%	\$0
June 30, 2013	\$1,705,592	100%	\$0
June 30, 2012	\$1,586,649	100%	\$0

CERS does not determine separate measurements of assets and pension liabilities for individual employers. As the City is only one of many employers participating in the plan, it is not practical to determine the City's portion of the actuarial accrued liability, unfunded AAL or plan assets. Funded status for the CERS pension fund as a whole is as follows:

Year Ended	Actuarial Value of Assets	(AAL) Entry Age Normal	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
6/30/13	\$7,438,785,893	\$12,503,081,707	\$5,064,295,814	59.5%	\$2,697,950,056	187.7%

H. Long-Term Debt

Notes and bonds payable at June 30, 2014, are summarized, as follows:

General Fund

US Bank term loan – due in scheduled maturities through November 1, 2019	\$ 199,548
BB&T notes payable – due in scheduled maturities through January 13, 2023	394,500
BB&T notes payable – due in scheduled maturities through November 29, 2015	187,669
Community Financial Services Bank note payable – monthly payments of \$8,524 through May 5, 2024, including interest at 2.78%	877,451
	<u>\$ 1,659,168</u>

Water and Sewer Fund

Kentucky Area Development Districts Financing Trust – due in scheduled maturities through May 20, 2023 at 1.5% to 4.7%	\$ 825,000
Kentucky Infrastructure Authority Revolving Loan Fund – due in scheduled maturities through June 1, 2029, at 1%	943,373
Kentucky Infrastructure Authority Revolving Loan Fund – due in scheduled maturities through 2033 at 1%	3,126,224
2001 Revenue Bonds – due in scheduled maturities through January 1, 2041 at 4.75%	460,000
	<u>\$ 5,354,597</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

The annual debt service requirements to maturity for long-term debt as of June 30, 2014, are as presented below:

Year Ending	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 288,690	\$ 41,553	\$ 141,595	\$ 69,845
2016	216,877	35,267	148,183	65,910
2017	166,218	30,139	153,776	61,411
2018	171,282	25,075	2,402,252	280,694
2019	183,344	19,428	1,040,328	235,423
2020-2024	632,757	38,372	783,197	172,569
2025-2029	-	-	406,266	88,453
2030-2034	-	-	98,000	57,428
2035-2039	-	-	123,000	31,825
2040-2044	-	-	58,000	4,180
	<u>\$ 1,659,168</u>	<u>\$ 189,834</u>	<u>\$ 5,354,597</u>	<u>\$ 1,067,738</u>

The following is a summary of the City's long-term debt activity for the year ended June 30, 2014:

	Balance			Balance	
	July 1, 2013	Additions	Payments	June 30, 2014	Current Portion
Governmental activities					
US Bank	\$ 230,536	\$ -	\$ 30,988	\$ 199,548	\$ 35,256
BB&T - fire truck	436,393	-	41,893	394,500	42,794
BB&T - police vehicles	317,888	-	130,219	187,669	132,080
Community Financial Services	-	890,800	13,349	877,451	78,560
Total	<u>984,817</u>	<u>890,800</u>	<u>216,449</u>	<u>1,659,168</u>	<u>288,690</u>
Business-type activities					
KADD	900,000	-	75,000	825,000	75,000
RLF	307,371	-	307,371	-	-
KIA	1,001,387	-	58,014	943,373	58,596
KIA 12/12	1,062,992	2,063,232	-	3,126,224	-
2001 Revenue Bonds	468,000	-	8,000	460,000	8,000
Total	<u>3,739,750</u>	<u>2,063,232</u>	<u>448,385</u>	<u>5,354,597</u>	<u>141,596</u>
Total long-term debt	<u>\$ 4,724,567</u>	<u>\$ 2,954,032</u>	<u>\$ 664,834</u>	<u>\$ 7,013,765</u>	<u>\$ 430,286</u>

I. Conduit Debt Obligations

As of June 30, 2014, the City of Murray had the following bond issues outstanding related to the acquisition and construction of facilities:

Murray State University Wellness & Recreation	\$ 8,850,000
Murray Calloway County Hospital	<u>14,860,000</u>
Total principal amounts payable	<u>\$ 23,710,000</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014 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, 2014, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

M. Prior Period Adjustments

During the current year, it was determined that the building purchased by the Alcoholic Beverage Commission fund in the prior year was unsound and would have to be razed. As a result, the amount paid for the building was refunded and a prior period adjustment was made to remove the building from the City's capital assets. Capital assets were decreased by \$100,000 less \$10,000 in accumulated depreciation recorded in the prior year and beginning net position was decreased by \$90,000. A second adjustment was made to correct the reporting of compensated absences in the prior year. Beginning fund balance in the General Fund was increased by \$298,452 which was the liability for compensated absences that was reported at the fund level in error in the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MURRAY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2014

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
Revenues				
Property taxes	\$ 3,681,250	\$ 3,681,250	\$ 3,738,422	\$ 57,172
Insurance tax	1,700,000	1,700,000	1,903,384	203,384
Vehicle license tax	815,000	815,000	772,303	(42,697)
Franchise taxes	250,000	250,000	180,591	(69,409)
Occupational business licenses	290,000	290,000	291,976	1,976
Payments in lieu of taxes	7,500	7,500	85,118	77,618
Bank shares	125,000	125,000	155,496	30,496
Licenses and permits	52,500	52,500	60,927	8,427
Fines and fees	11,000	11,000	9,355	(1,645)
Intergovernmental revenue	37,000	37,000	10,000	(27,000)
Interest	25,000	25,000	27,465	2,465
Miscellaneous income	283,000	283,000	232,764	(50,236)
Grant funds received	5,479,500	7,175,239	1,211,470	(5,963,769)
Transient room tax	215,000	215,000	-	(215,000)
Total revenues	<u>12,971,750</u>	<u>14,667,489</u>	<u>8,679,271</u>	<u>(5,988,218)</u>
Expenditures				
General government	6,685,400	8,381,139	2,569,580	5,811,559
Police department	3,025,550	3,082,250	3,142,252	(60,002)
Fire department	3,319,100	3,372,400	3,931,739	(559,339)
Street department	751,030	751,030	782,262	(31,232)
Planning and zoning	387,300	387,300	327,485	59,815
Debt service				
Principal	-	-	184,366	(184,366)
Interest	-	-	27,638	(27,638)
Total expenditures	<u>14,168,380</u>	<u>15,974,119</u>	<u>10,965,322</u>	<u>5,008,797</u>
Revenues over (under) expenditures	<u>(1,196,630)</u>	<u>(1,306,630)</u>	<u>(2,286,051)</u>	<u>(979,421)</u>
Other Financing Sources (Uses)				
Transfers from other funds	1,315,000	1,022,940	1,415,000	392,060
Proceeds from debt	-	-	890,800	890,800
Total other financing sources (uses)	<u>1,315,000</u>	<u>1,022,940</u>	<u>2,305,800</u>	<u>1,282,860</u>
Net change in fund balance	118,370	(283,690)	19,749	303,439
Fund balance, beginning of year	2,195,000	2,195,000	2,727,525	532,525
Prior period adjustment	298,452	298,452	298,452	-
Fund balance, end of year	<u>\$ 2,611,822</u>	<u>\$ 2,209,762</u>	<u>\$ 3,045,726</u>	<u>\$ 835,964</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FUNDING PROGRESS FOR CERS PENSION FUNDS
For the Year Ended June 30, 2014

The following table presents funding progress for the County Employees Retirement System (CERS) pension funds:

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)- Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/13	\$7,438,786	\$12,503,082	\$5,064,296	59.5%	\$2,697,950	187.7%
6/30/12	\$7,294,615	\$12,149,560	\$4,854,945	60.0%	\$2,700,775	179.8%
6/30/11	\$7,409,157	\$11,777,126	\$4,367,970	62.9%	\$2,743,560	159.2%

CERS does not determine separate measurements of assets and pension liabilities for individual employers. As the City is only one of many employers participating in the plan, it is not practical to determine the City's portion of the AAL, UAAL or plan assets.

OTHER SUPPLEMENTARY INFORMATION SECTION

CITY OF MURRAY, KENTUCKY
 COMBINING BALANCE SHEETS
 NON-MAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE
 June 30, 2014

Municipal Aid	E-911	Murray Convention and Visitors Bureau	Drug Court Awards Fund	LGEA	Alcoholic Beverage Control	Totals
\$ -	\$ -	\$ 142,821	\$ -	\$ -	\$ -	\$ 142,821
-	-	15,353	-	-	250,639	265,992
-	-	76,130	-	-	20,000	96,130
<u>211,462</u>	<u>37,853</u>	<u>-</u>	<u>41,856</u>	<u>7,303</u>	<u>166,314</u>	<u>464,788</u>
<u>\$ 211,462</u>	<u>\$ 37,853</u>	<u>\$ 234,304</u>	<u>\$ 41,856</u>	<u>\$ 7,303</u>	<u>\$ 436,953</u>	<u>\$ 969,731</u>

Balances

\$ 14,127	\$ 4,649	\$ -	\$ -	\$ -	\$ 2,750	\$ 21,526
-	-	2,948	-	-	-	2,948
-	-	4,213	-	-	511,000	515,213
<u>14,127</u>	<u>4,649</u>	<u>7,161</u>	<u>-</u>	<u>-</u>	<u>513,750</u>	<u>539,687</u>
197,335	33,204	227,143	41,856	7,303	166,314	673,155
-	-	-	-	-	(243,111)	(243,111)
<u>197,335</u>	<u>33,204</u>	<u>227,143</u>	<u>41,856</u>	<u>7,303</u>	<u>(76,797)</u>	<u>430,044</u>
<u>\$ 211,462</u>	<u>\$ 37,853</u>	<u>\$ 234,304</u>	<u>\$ 41,856</u>	<u>\$ 7,303</u>	<u>\$ 436,953</u>	<u>\$ 969,731</u>

and fund balances

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE
 For the Year Ended June 30, 2014

	Municipal Aid	E-911	Murray Convention and Visitors Bureau	Drug Court Awards Fund	LGEA	Alcoholic Beverage Control	Totals
Revenue	\$ 408,229	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 408,229
Charges	2,666	907	13	22	78	-	3,686
License fees	-	153,011	242,155	-	-	-	153,011
	-	-	-	-	-	1,022,177	1,022,177
	-	-	-	3,225	-	-	3,225
	-	-	73,531	-	567	7,892	81,990
	<u>410,895</u>	<u>153,918</u>	<u>315,699</u>	<u>3,247</u>	<u>645</u>	<u>1,030,069</u>	<u>1,914,473</u>
	529,516	-	-	-	-	-	529,516
	-	108,457	-	-	-	-	108,457
	-	-	252,358	-	-	-	252,358
	-	-	15,470	-	-	-	15,470
Control	-	-	-	5,264	-	-	5,264
	-	-	-	-	-	92,676	92,676
	-	-	-	-	-	32,083	32,083
	-	-	-	-	-	917	917
es	<u>529,516</u>	<u>108,457</u>	<u>267,828</u>	<u>5,264</u>	<u>-</u>	<u>125,676</u>	<u>1,036,741</u>
nder) expenditures	(118,621)	45,461	47,871	(2,017)	645	904,393	877,732
ources (Uses)							
nds	-	(100,000)	-	-	-	(1,000,000)	(1,100,000)
nd balance	(118,621)	(54,539)	47,871	(2,017)	645	(95,607)	(222,268)
ning of year	<u>315,956</u>	<u>87,743</u>	<u>179,272</u>	<u>43,873</u>	<u>6,658</u>	<u>18,810</u>	<u>652,312</u>
of year	<u>\$ 197,335</u>	<u>\$ 33,204</u>	<u>\$ 227,143</u>	<u>\$ 41,856</u>	<u>\$ 7,303</u>	<u>\$ (76,797)</u>	<u>\$ 430,044</u>

See independent auditor's report.
 -37-

CITY OF MURRAY, KENTUCKY
 COMBINING STATEMENT OF NET POSITION
 INTERNAL SERVICE FUNDS
 June 30, 2014

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Assets			
Current Assets			
Investments, at fair value	\$ -	\$ 75,728	\$ 75,728
Accounts receivable	33,014	-	33,014
Materials and supplies, at average cost	60,342	-	60,342
Total current assets	<u>93,356</u>	<u>75,728</u>	<u>169,084</u>
Non-Current Assets			
Buildings	225,000	-	225,000
Machinery and equipment	117,871	-	117,871
Accumulated depreciation	(304,317)	-	(304,317)
Restricted assets	-	476,671	476,671
Total non-current assets	<u>38,554</u>	<u>476,671</u>	<u>515,225</u>
Total assets	<u>131,910</u>	<u>552,399</u>	<u>684,309</u>
Liabilities			
Current Liabilities			
Accounts payable	21,364	332,742	354,106
Accrued salaries	4,595	-	4,595
Accrued compensated absences	28,397	-	28,397
Due to other funds	170,704	-	170,704
Accrued claims incurred but not reported	-	328,108	328,108
Total current liabilities	<u>225,060</u>	<u>660,850</u>	<u>885,910</u>
Net Position			
Investment in capital assets	38,554	-	38,554
Restricted	-	552,399	552,399
Unrestricted	(131,704)	(660,850)	(792,554)
Total net position	<u>\$ (93,150)</u>	<u>\$ (108,451)</u>	<u>\$ (201,601)</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
INTERNAL SERVICE FUNDS
For the Year ended June 30, 2014

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Operating Revenues			
Charges for interfund services	\$ 831,056	\$ -	\$ 831,056
Contributions to fund	-	1,791,684	1,791,684
Total operating revenues	<u>831,056</u>	<u>1,791,684</u>	<u>2,622,740</u>
Operating Expenses			
Depreciation	8,924	-	8,924
Parts rebilled	198,204	-	198,204
Petroleum products rebilled	446,477	-	446,477
Other garage expenses	224,817	-	224,817
Claims paid	-	1,600,660	1,600,660
Administrative costs	-	443,302	443,302
Wellness incentives	-	24,340	24,340
Total operating expenses	<u>878,422</u>	<u>2,068,302</u>	<u>2,946,724</u>
Operating income (loss)	<u>(47,366)</u>	<u>(276,618)</u>	<u>(323,984)</u>
Non-Operating Revenues (Expenses)			
Interest and dividend income	-	2,777	2,777
Gain (loss) on sale of investments	-	(1,473)	(1,473)
Total non-operating revenues (expenses)	<u>-</u>	<u>1,304</u>	<u>1,304</u>
Change in net position	(47,366)	(275,314)	(322,680)
Net position - beginning of year	<u>(45,784)</u>	<u>166,863</u>	<u>121,079</u>
Net position - end of year	<u>\$ (93,150)</u>	<u>\$ (108,451)</u>	<u>\$ (201,601)</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2014

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Cash Flows from Operating Activities			
Cash paid to suppliers	\$ (514,465)	\$ -	\$ (514,465)
Cash paid to employees	(193,085)	(24,340)	(217,425)
Cash received for premiums	-	1,791,684	1,791,684
Cash paid for claims	-	(1,320,378)	(1,320,378)
Cash paid for administrative expenses	-	(443,302)	(443,302)
Cash received from interfund services provided	821,900	-	821,900
Net cash provided (used) by operating activities	<u>114,350</u>	<u>3,664</u>	<u>118,014</u>
Cash Flows From Capital and Related Financing Activities			
Purchases of capital assets	<u>(1,269)</u>	<u>-</u>	<u>(1,269)</u>
Cash Flows From Investing Activities			
Interest and dividends	-	2,777	2,777
Purchase of investments	-	(51,387)	(51,387)
Proceeds from sale or maturities of investments	-	47,962	47,962
Net cash provided (used) by investing activities	<u>-</u>	<u>(648)</u>	<u>(648)</u>
Net increase in cash and cash equivalents	113,081	3,016	116,097
Cash and cash equivalents at beginning of year	<u>(113,081)</u>	<u>473,655</u>	<u>360,574</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 476,671</u>	<u>\$ 476,671</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (47,366)	\$ (276,618)	\$ (323,984)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	8,924	-	8,924
(Increase) Decrease in operating assets:			
Accounts receivable	(9,156)	-	(9,156)
Materials and supplies	(5,436)	-	(5,436)
Increase (Decrease) in operating liabilities:			
Accounts payable	(6,720)	218,117	211,397
Accrued expenses	3,400	62,165	65,565
Due to other funds	170,704	-	170,704
Net cash provided (used) by operating activities	<u>\$ 114,350</u>	<u>\$ 3,664</u>	<u>\$ 118,014</u>

See independent auditor's report.

CITY OF MURRAY, KENTUCKY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2014

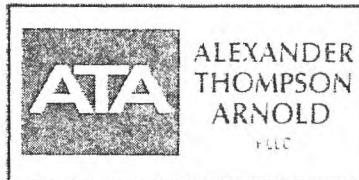
Federal Grantor / Pass-Through Grantor/CFDA Program Title	Federal CFDA Number	Program or Award Amount	Expenditures
U.S. Department of Transportation			
Passed Through Kentucky Transportation Cabinet:			
Highway Planning and Construction	20.205	\$ 54,342	\$ 54,342
	20.205	9,014	9,014
Highway Planning and Construction TE/STP	20.205	<u>420,010</u>	<u>420,010</u>
		483,366	483,366
Federal Transit - Capital Investment Grants	20.500	799,014	799,014 *
State and Community Highway Safety	20.600	<u>15,918</u>	<u>15,918</u>
Total U.S. Department of Transportation		1,298,298	1,298,298
U.S. Environmental Protection Agency			
Revolving Loan Program with Kentucky Infrastructure Authority			
Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>46,000,000</u>	<u>2,052,828</u> *
Total federal awards		<u>\$ 47,298,298</u>	<u>\$ 3,351,126</u>

* major program

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

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



Certified Public Accountants
Offices in Tennessee & Kentucky

112-A Robertson Rd.
Murray, KY 42071

Phone 270.753.2424
Fax 270.753.3878
www.atacpa.net

**Independent Auditor's Report On Internal Control Over Financial Reporting
And on Compliance and Other Matters
Based on and Audit of Financial Statements Performed In
Accordance with Government Auditing Standards**

Honorable Mayor Bill Wells and
Members of the City Council
City of Murray, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Murray, Kentucky as of and for the year ended June 30, 2014, 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 November 20, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2012-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

City of Murray's Response to Finding

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

Purpose of this Report

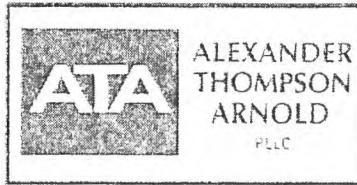
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in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

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 20, 2014

Members of:

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



Certified Public Accountants
Offices in Tennessee & Kentucky

112-A Robertson Rd.
Murray, KY 42071

Phone 270.753.2424
Fax 270.753.3873
www.atacpa.net

**Report on Compliance for Each Major Federal Program; Report on
Internal Control Over Compliance; and Report on the Schedule of Expenditures
Of Federal Awards Required by OMB Circular A-133**

Independent Auditor's Report

Honorable Mayor Bill Wells and
Members of the City Council
City of Murray, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Murray, Kentucky's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of City of Murray, Kentucky's major federal programs for the year ended June 30, 2014. City of Murray, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Murray, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Murray, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, City of Murray, Kentucky complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of City of Murray, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Murray, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Murray, Kentucky's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2012-002, that we consider to be a significant deficiency.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 20, 2014

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2014

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> yes	<u> x </u> no
Significant deficiency(ies) identified?	<u> x </u> yes	<u> </u> none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> yes	<u> x </u> no
Significant deficiency(ies) identified?	<u> x </u> yes	<u> </u> none reported

Type of auditor's report issued on compliance for major programs: unmodified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.500	Federal Transit - Capital Investment Grants
66.458	Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? yes x no

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

FINANCIAL STATEMENT FINDINGS

FINDING 2012-001

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

Criteria: Internal controls should be in place in order for the City to be able to prevent, detect, and correct potential misstatements in its financial statements, as prescribed by Statement of Auditing Standards No. 115, AU Section 325.05. A system of internal control over financial reporting does not consist solely of controls over the proper recorded of accounting transactions. Rather, it includes controls over financial statement preparation, preparation of the schedule of expenditures of federal awards, and footnote disclosures.

Cause: As is common in small to medium sized organizations, the City operates in an environment with many departments and varying degrees of financial reporting complexity on a yearly basis. This finding is related to a specific series of transactions which should have been accrued in the City's proprietary fund but which were overlooked during the execution of the yearend financial close procedures.

Effect: The likelihood of the City's financial statements containing significant misstatements is not reduced to a low level because the City's internal controls over financial reporting are less than effective.

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

Management's Response: Management agrees with the recommendation and procedures will be implemented immediately.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING 2012-002

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

Criteria: Internal controls should be in place in order for the City to be able to prevent, detect, and correct potential misstatements in its financial statements, as prescribed by Statement of Auditing Standards No. 115, AU Section 325.05. A system of internal control over financial reporting does not consist solely of controls over the proper recorded of accounting transactions. Rather, it

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

includes controls over financial statement preparation, preparation of the schedule of expenditures of federal awards, and footnote disclosures.

Cause: As is common in small to medium sized organizations, the City operates in an environment with many departments and varying degrees of financial reporting complexity on a yearly basis. This finding is related to a specific series of transactions which should have been accrued in the City's proprietary fund but which were overlooked during the execution of the yearend financial close procedures.

Effect: The likelihood of the City's financial statements containing significant misstatements is not reduced to a low level because the City's internal controls over financial reporting are less than effective.

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

Management's Response: Management agrees with the recommendation and procedures will be implemented immediately

CITY OF MURRAY, KENTUCKY
SUMMARY SCHEDULE OF PRIOR FINDINGS
June 30, 2014

PRIOR YEAR FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

FINDING 2012-001

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

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

Current Status: This circumstance continues to exist in the current year.

PRIOR YEAR FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING 2012-002

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

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

Current Status: This circumstance continues to exist in the current year.