

CITY OF MURRAY, KENTUCKY
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2012

**CITY OF MURRAY, KENTUCKY
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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Murray, Kentucky as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 5, 2012, on our consideration of the City of Murray's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and page 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Murray, Kentucky's financial statements as a whole. The combining and individual nonmajor fund financial statements 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relating to the financial statements as a whole.

Alexander Thompson Arnold PLLC

Murray, Kentucky

November 5, 2012

Bill Wells
Mayor



City of Murray



MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Murray's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The net assets of all City activities are \$55,742,983. This represents a decrease of \$1,864,365 (3.24%) over the prior year. This relatively small decrease is spread among the governmental and business-type activities. A breakout shows 82% (\$45,657,990) in business-type activities and the remaining 18% (\$10,084,993) in governmental activities.
- Total City activities indicate current assets of \$9,050,497 and current and non-current liabilities of \$6,349,110 giving a positive financial picture for liquidity of \$2,701,387.
- For all governmental funds, revenues and other expenditures and other uses exceed funding sources \$368,504, decreasing the reported fund balance to \$2,114,623.
- For all four business-type activities (Water and Sewer, Natural Gas, Sanitation, and Stormwater) total operating expenses of \$15,112,278 exceed total operating revenues of \$14,125,315 by \$986,963. This loss, combined with non-operating revenues & expenses and transfers, leads to a net loss of \$547,279.

USING THIS ANNUAL AUDIT

This annual financial report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on page 8 and 9-10) 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 11. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts as a trustee or agent for the benefit of those outside of the government.

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 4. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities.

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

THE CITY AS A WHOLE

Governmental Activities

- The largest single receipt category, property taxes, has increased \$108,326 (3.27%) to \$3,416,337.
- The largest total departmental expenditure is the Police Department - \$2,843,931. A year-over-year comparison shows an increase of \$138,521 or 5.12%.
- General Fund revenues total \$7,401,524 and expenditures total \$7,898,914. When other transfers, financing sources & uses are included a decrease in fund balance of \$263,814 is realized.
- Grant receipts for the year are \$545,518 – a 17.77% increase from the prior year.
- Interest income of \$42,389 accounts for only 0.57% of total General Fund revenues; a comparison to prior year shows a decrease of \$2,833.

Business-type Activities

Murray Water and Sewer System

- The Water and Sewer System's total operating expenses of \$5,406,163 has decreased by \$331,796 or 6.54% from the prior year.
- The operating loss for the Water and Sewer System from operations is \$458,684. When considering non-operating revenues, expenses and transfers the net income is \$3,356. This is a decrease of \$192,327 from the prior year.

Murray Natural Gas System

- The Gas System's total operating expenses of \$6,975,849 has decreased by \$1,813,257 or 20.63% of prior year's operations.
- The operating loss for the Gas System from operations is \$64,794. When considering non-operating revenues, expenses and transfers, the net loss is \$63,235. This is a decrease of \$185,692 from the prior year.

Sanitation Department

- The Sanitation Department's total operating expenses of \$2,545,306 have increased by \$77,484 or 3.13% of prior year's operations.
- The operating loss for the Sanitation Department from operations is \$506,272. When considering non-operating revenues, expenses and transfers, the net loss is \$562,249. This is a decrease of \$115,027 from the prior year.

Stormwater Utility

- The Stormwater Utility total operating expenses of \$184,960 has increased by \$77,905 or 72.77% of prior year's operations.
- The operating income for the Stormwater Utility from operations is \$42,787. When considering non-operating revenues, expenses, grant income and transfers the net income is \$75,029. This is a decrease of \$693,872 from the prior year.

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

Table 1
Net Assets
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 2,893	\$ 3,468	\$ 9,708	\$ 11,830	\$ 12,601	\$ 15,298
Capital assets	7,192	6,787	35,950	35,523	43,142	42,310
Total assets	<u>10,085</u>	<u>10,255</u>	<u>45,658</u>	<u>47,353</u>	<u>55,743</u>	<u>57,608</u>
Long-term debt outstanding	263	294	3,114	3,539	3,377	3,833
Other liabilities	1,041	949	1,931	2,654	2,972	3,603
Total liabilities	<u>1,304</u>	<u>1,243</u>	<u>5,045</u>	<u>6,193</u>	<u>6,349</u>	<u>7,436</u>
 Net assets:						
Invested in capital assets, net of debt	6,929	6,493	32,837	32,193	39,766	38,686
Restricted	528	443	3,069	3,439	3,597	3,882
Unrestricted	<u>1,324</u>	<u>2,076</u>	<u>4,707</u>	<u>5,528</u>	<u>6,031</u>	<u>7,604</u>
Total net assets	<u>\$ 8,781</u>	<u>\$ 9,012</u>	<u>\$ 40,613</u>	<u>\$ 41,160</u>	<u>\$ 49,394</u>	<u>\$ 50,172</u>

Table 2
Changes in Net Assets
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,119	\$ 1,123	\$ 13,679	\$ 15,493	\$ 14,798	\$ 16,616
Grants	546	449	648	1,313	1,194	1,762
General revenues:						
Property taxes	3,416	3,308	-	-	3,416	3,308
Franchise taxes	254	256	-	-	254	256
Payments in lieu of taxes	10	8	-	-	10	8
Bank shares	100	94	-	-	100	94
Insurance tax	1,656	1,619	-	-	1,656	1,619
School tax	35	34	-	-	35	34
Base court revenue	29	21	-	-	29	21
Telephone line charges	153	148	-	-	153	148
Transient room tax	211	176	-	-	211	176
Intergovernmental	339	321	-	-	339	321
Interest and investment earnings	43	50	154	171	197	221
Gain on sale of assets	-	(1)	19	6	19	5
Miscellaneous	296	252	446	527	742	779
Transfers	270	270	(270)	(270)	-	-
Total revenues	<u>8,477</u>	<u>8,128</u>	<u>14,676</u>	<u>17,240</u>	<u>23,153</u>	<u>25,368</u>
Program Expenses						
General government	1,265	699	-	-	1,265	699
Community development	744	578	-	-	744	578
Police department	2,844	2,705	-	-	2,844	2,705
Fire department	2,632	2,475	-	-	2,632	2,475
Animal control	25	25	-	-	25	25
Street department	694	744	-	-	694	744
Tourism	245	190	-	-	245	190
Municipal aid	28	341	-	-	28	341
E-911	143	82	-	-	143	82
Freedom fest	67	58	-	-	67	58
Drug court awards	8	6	-	-	8	6
LGEA	1	6	-	-	1	6
Unallocated interest expense	12	23	-	-	12	23
Water and sewer	-	-	5,509	5,241	5,509	5,241
Natural gas	-	-	6,985	8,799	6,985	8,799
Sanitation	-	-	2,545	2,472	2,545	2,472
Stormwater	-	-	184	107	184	107
Total expenses	<u>8,708</u>	<u>7,932</u>	<u>15,223</u>	<u>16,619</u>	<u>23,931</u>	<u>24,551</u>
Increase (decrease) in net assets	<u>\$ (231)</u>	<u>\$ 196</u>	<u>\$ (547)</u>	<u>\$ 621</u>	<u>\$ (778)</u>	<u>\$ 817</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

- In Governmental Activities, additions to property, plant and equipment totals \$954,276. A breakdown of the additions indicates \$238,572 is due to machinery and equipment and \$715,704 is due to infrastructure. Total disposals of \$74,043 are comprised entirely in machinery and equipment.
- In the Business-type Activities, additions to property, plant and equipment total \$2,324,073. A breakdown of the additions indicates \$462,757 is due to the Gas System, \$1,580,941 is due to the Water and Sewer System, \$90,929 is due the Sanitation Department, \$189,447 is due to the Stormwater Utility and \$9,527 is due to the Central Garage operations. Total disposals of \$151,396 include \$72,201 from the Gas System and \$79,194 from the Water and Sewer System.

Debt

- No new debt in General Governmental Activities has been issued during the fiscal year.
- No new debt in Business-type Activities has been issued during the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Preliminary data for the City in fiscal year 2013 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 the planned Waste Water Treatment Plant facility upgrades, as well as sustained, long-term profitability of the Water System and 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, optimizing 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

Alan D. Lanier,
Finance Director

BASIC FINANCIAL STATEMENTS

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2012

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Cash in banks and on hand	\$ 1,985,084	\$ 2,881,121	\$ 4,866,205
Certificates of deposit	30,774	2,700,000	2,730,774
Investments at fair value	180,334	-	180,334
Receivables (net of allowance for uncollectible):	-	-	-
Taxes	95,212	-	95,212
Grants	-	-	-
Customer	-	715,658	715,658
Other	67,044	1,200	68,244
Internal Balances	258	-	258
Materials and supplies, at average cost	54,095	339,717	393,812
Total current assets	<u>2,412,801</u>	<u>6,637,696</u>	<u>9,050,497</u>
Non-Current Assets:			
Net capital assets	7,192,484	35,950,434	43,142,918
Restricted assets	479,708	3,069,860	3,549,568
Total non-current assets	<u>7,672,192</u>	<u>39,020,294</u>	<u>46,692,486</u>
Total assets	<u>\$ 10,084,993</u>	<u>\$ 45,657,990</u>	<u>\$ 55,742,983</u>
Liabilities			
Current Liabilities:			
Accounts payable	\$ 306,146	\$ 706,931	\$ 1,013,077
Accrued salaries and wages	122,442	87,435	209,877
Accrued compensated absences	259,300	299,015	558,315
Other accrued liabilities	263,976	41,391	305,367
Notes payable	28,770	429,051	457,821
Bonds payable	-	8,000	8,000
Customer deposits	-	531,035	531,035
Accrued interest payable:	-	-	-
Bonds	-	16,954	16,954
Customer deposits	-	147,268	147,268
Internal balances	-	-	-
Total current liabilities	<u>980,634</u>	<u>2,267,080</u>	<u>3,247,714</u>
Non-Current Liabilities:			
Accrued compensated absences	89,752	101,028	190,780
Notes payable	233,859	2,208,757	2,442,616
Bonds payable	-	468,000	468,000
Total non-current liabilities	<u>323,611</u>	<u>2,777,785</u>	<u>3,101,396</u>
Total liabilities	<u>1,304,245</u>	<u>5,044,865</u>	<u>6,349,110</u>
Net Assets			
Invested in capital assets, net of related debt	6,929,855	32,836,624	39,766,479
Restricted for:			
CDBG housing	49,104	-	49,104
Special purposes	457,015	-	457,015
Employee Benefits	21,231	-	21,231
Debt service	-	1,378,065	1,378,065
Renewal and replacement	-	775,000	775,000
Meter deposit reserve	-	624,545	624,545
Landfill postclosure reserve	-	292,250	292,250
Unrestricted	1,323,543	4,706,641	6,030,184
Total net assets	<u>8,780,748</u>	<u>40,613,125</u>	<u>49,393,873</u>
Total liabilities and net assets	<u>\$ 10,084,993</u>	<u>\$ 45,657,990</u>	<u>\$ 55,742,983</u>

The accompanying notes are an integral part of these financial statements

CITY OF MURRAY, KENTUCKY
STATEMENT OF ACTIVITIES
June 30, 2012

Functions/Programs	Expenses	Program Revenues			Revenue
		Charges for Services	Operating Grants & Contributions	Operating Grants & Contributions	
Governmental activities:					
General government	\$ 1,265,013	\$ 1,118,656	\$ -	\$ -	\$ (146,357)
Community development	744,673	-	-	205,839	(538,834)
Police department	2,843,961	-	157,632	-	(2,686,329)
Fire department	2,632,588	-	182,047	-	(2,450,541)
Animal control	25,000	-	-	-	(25,000)
Street department	693,885	-	-	-	(693,885)
Tourism	245,144	-	-	-	(245,144)
Municipal aid	27,673	-	-	-	(27,673)
E-911	142,377	-	-	-	(142,377)
Freedom fest	66,790	-	-	-	(66,790)
Drug court awards	8,291	-	-	-	(8,291)
Loss on sale of investments	814	-	-	-	(814)
Unallocated interest expense	11,940	-	-	-	(11,940)
Total governmental activities	<u>8,708,149</u>	<u>1,118,656</u>	<u>339,679</u>	<u>205,839</u>	<u>(7,043,975)</u>
Business-type activities:					
Water and sewer	5,509,743	4,564,146	-	603,726	(341,871)
Natural gas	6,985,678	6,861,877	-	-	(123,801)
Sanitation	2,545,306	2,025,448	-	18,116	(501,742)
Stormwater	184,960	227,747	-	26,928	69,715
Total business-type activities	<u>15,225,687</u>	<u>13,679,218</u>	<u>-</u>	<u>648,770</u>	<u>(897,699)</u>
Total primary government	<u>\$ 23,933,836</u>	<u>\$ 14,797,874</u>	<u>\$ 339,679</u>	<u>\$ 854,609</u>	<u>\$ (7,941,674)</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, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Change in Net Assets:			
Net (Expense) Revenue	\$ (7,043,975)	\$ (897,699)	\$ (7,941,674)
General Revenues:			
Taxes:			
Property taxes	3,416,337	-	3,416,337
Franchise taxes	253,671	-	253,671
Payments in lieu of taxes	10,341	-	10,341
Bank shares	99,875	-	99,875
Insurance tax	1,655,656	-	1,655,656
School tax	35,407	-	35,407
Base court revenue	29,419	-	29,419
Telephone line charges	153,059	-	153,059
Transient room tax	211,424	-	211,424
Intergovernmental	338,553	-	338,553
Interest and investments earnings	43,141	154,977	198,118
Gain on sale of assets	-	19,346	19,346
Miscellaneous	296,309	446,097	742,406
Transfers	270,000	(270,000)	-
Total general revenues & transfers	<u>6,813,192</u>	<u>350,420</u>	<u>7,163,612</u>
Change in net assets	(230,783)	(547,279)	(778,062)
Net assets - beginning of period	<u>9,011,531</u>	<u>41,160,404</u>	<u>50,171,935</u>
Net assets - end of period	<u>\$ 8,780,748</u>	<u>\$ 40,613,125</u>	<u>\$ 49,393,873</u>

The accompanying notes are an integral part of these financial statements

CITY OF MURRAY, KENTUCKY
BALANCE SHEET
June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 1,932,992	\$ 119,672	\$ 2,052,664
Certificates of deposit	-	30,774	30,774
Receivables:			
Taxes (net of allowance for uncollectibles of \$27,096)	95,212	-	95,212
Grants	-	-	-
Due from other funds	11,740	-	11,740
Other	46,389	15,131	61,520
Restricted assets:			
Cash and cash equivalents	49,104	409,373	458,477
Total assets	\$ 2,135,437	\$ 574,950	\$ 2,710,387
Liabilities and Fund Balances			
Current Liabilities:			
Accounts payable	105,062	95,485	200,547
Due to other funds	14,037	11,740	25,777
Accrued salaries payable	118,747	-	118,747
Accrued compensated absences	250,693	-	250,693
Total current liabilities	488,539	107,225	595,764
Fund Balances:			
Restricted for:			
General fund	49,104	-	49,104
Special revenue funds	-	318,309	318,309
Committed to Tourism activities	-	137,958	137,958
Assigned to Freedom Fest activities	-	11,458	11,458
Unassigned	1,597,794	-	1,597,794
Total Fund Balances	1,646,898	467,725	2,114,623
Total liabilities and fund equity	\$ 2,135,437	\$ 574,950	\$ 2,710,387
<u>Reconciliation Of Total Governmental Fund Balance</u>			
<u>To Net Assets Of Governmental Activities</u>			
Total Governmental Fund Balances			\$ 2,114,623
Amounts reported in governmental activities in the statements of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			
			7,138,952
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			
			(135,073)
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			
			(337,754)
Net assets of Governmental Activities			\$ 8,780,748

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, 2012

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Property taxes	\$ 3,416,337	\$ -	\$ 3,416,337
Insurance tax	1,655,656	-	1,655,656
Vehicle license tax	731,261	-	731,261
Franchise taxes	253,671	-	253,671
Occupational business licenses	257,634	-	257,634
Payments in lieu of taxes	10,341	-	10,341
Bank shares	99,875	-	99,875
License and permits	39,964	-	39,964
Fines and fees	14,395	-	14,395
Telephone line charges	-	153,059	153,059
Intergovernmental revenue	39,419	328,553	367,972
Interest	35,643	6,746	42,389
Miscellaneous income	90,386	241,328	331,714
Grant funds received	545,518	-	545,518
Transient room tax	211,424	-	211,424
Total revenues	<u>7,401,524</u>	<u>729,686</u>	<u>8,131,210</u>
Expenditures			
General government	1,565,476	-	1,565,476
Police department	2,787,521	-	2,787,521
Fire department	2,590,160	-	2,590,160
Animal control	25,000	-	25,000
Street department	618,161	408,198	1,026,359
Planning and zoning	269,309	-	269,309
E-911	-	142,377	142,377
Tourism Commission	-	245,144	245,144
Freedom Fest	-	66,790	66,790
Drug Court Awards	-	8,291	8,291
Debt service:			
Principal	31,347	-	31,347
Interest	11,940	-	11,940
Total expenditures	<u>7,898,914</u>	<u>870,800</u>	<u>8,769,714</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(497,390)</u>	<u>(141,114)</u>	<u>(638,504)</u>

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, 2012

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Excess (deficiency) of revenues over (under) expenditures (from page 12)	<u>\$ (497,390)</u>	<u>\$ (141,114)</u>	<u>\$ (638,504)</u>
Other Financing Sources (Uses)			
Transfers from other funds	445,000	227,424	672,424
Transfers to other funds	<u>(211,424)</u>	<u>(191,000)</u>	<u>(402,424)</u>
Total other financing sources (uses)	<u>233,576</u>	<u>36,424</u>	<u>270,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	(263,814)	(104,690)	(368,504)
Fund balance, beginning of year	<u>1,910,712</u>	<u>572,415</u>	<u>2,483,127</u>
Fund balance, end of year	<u>\$ 1,646,898</u>	<u>\$ 467,725</u>	<u>\$ 2,114,623</u>

The accompanying notes are an integral part of these financial statements

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

For the Year Ended June 30, 2012

Net change in fund balance - total governmental funds <i>of activities are different because:</i>	\$ (368,504)
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.	404,164
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	31,347
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.	(75,125)
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 certain internal service funds is reported with governmental activities.	<u>(222,665)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (230,783)</u></u>

The accompanying notes are an integral part of these financial statements

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Business-type Activities				Totals	Governmental
	Sewer	Gas	Sanitation	Stormwater		Service
Assets						
Current Assets:						
Cash in banks and on hand	\$ (149,723)	\$ 3,331,588	\$ (469,022)	\$ 168,278	\$ 2,881,121	\$ (67,580)
Certificates of deposit	-	2,250,000	450,000	-	2,700,000	-
Receivables (net of allowances for uncollectibles):	-	-	-	-	-	-
Customer	306,407	254,243	140,785	14,223	715,658	-
Other	-	38	1,162	-	1,200	5,524
Due from other funds	-	-	-	-	-	14,295
Investments, at fair value	-	-	-	-	-	180,334
Materials and supplies, at average cost	182,349	157,368	-	-	339,717	54,095
Total current assets	339,033	5,993,237	122,925	182,501	6,637,696	186,668
Non-Current Assets:						
Utility plant in service	51,400,590	6,688,020	-	-	58,088,610	-
Land	422,610	908,010	54,523	-	1,385,143	-
Buildings	793,964	1,315,427	314,723	-	2,424,115	225,000
Machinery and equipment	1,212,215	1,079,520	56,421	-	2,348,157	114,543
Vehicles	607,326	703,065	3,950,883	15,141	5,276,415	-
Other equipment	282,259	283,327	-	4,736	570,322	-
Drainage improvement	-	-	-	1,559,010	1,559,010	-
Accumulated depreciation	(27,001,390)	(5,331,046)	(3,266,227)	(102,675)	(35,701,338)	(286,011)
Restricted assets	2,413,920	363,690	292,250	-	3,069,860	21,231
Total non-current assets	30,131,494	6,010,014	1,402,574	1,476,212	39,020,294	74,763
Total assets	\$ 30,470,527	\$ 12,003,251	\$ 1,525,499	\$ 1,658,713	\$ 45,657,990	\$ 261,431
Liabilities						
Current Liabilities:						
Accounts payable	\$ 240,183	\$ 391,087	\$ 65,525	\$ 10,136	\$ 706,931	\$ 105,599
Accrued salaries and wages	48,197	20,874	17,597	767	87,435	3,695
Accrued compensated absences	174,452	40,861	83,702	-	299,015	8,607
Accrued liabilities	13,280	8,963	19,148	-	41,391	263,976
Notes payable	429,051	-	-	-	429,051	-
Bonds payable	8,000	-	-	-	8,000	-
Customer deposits	210,825	320,210	-	-	531,035	-
Accrued interest	-	-	-	-	-	-
Bonds	16,954	-	-	-	16,954	-
Customer deposits	59,905	87,363	-	-	147,268	-
Total current liabilities	1,200,847	869,358	185,972	10,903	2,267,080	381,877
Non-Current Liabilities:						
Accrued compensated absences	13,546	17,235	70,247	-	101,028	14,627
Notes payable	2,208,757	-	-	-	2,208,757	-
Bonds payable	468,000	-	-	-	468,000	-
Total non-current liabilities	2,690,303	17,235	70,247	-	2,777,785	14,627
Total liabilities	3,891,150	886,593	256,219	10,903	5,044,865	396,504
Net assets						
Invested in capital assets, net of related debt	24,603,766	5,646,323	1,110,323	1,476,212	32,836,624	53,532
Restricted for:	-	-	-	-	-	-
Employee benefit trust	-	-	-	-	-	21,231
Debt service	1,378,065	-	-	-	1,378,065	-
Renewal and replacement	775,000	-	-	-	775,000	-
Meter deposits	260,855	363,690	-	-	624,545	-
Landfill postclosure reserve	-	-	292,250	-	292,250	-
Unrestricted	(438,309)	5,106,645	(133,293)	171,598	4,706,641	(209,836)
Total net assets	26,579,377	11,116,658	1,269,280	1,647,810	40,613,125	(135,073)
Total liabilities and net assets	\$ 30,470,527	\$ 12,003,251	\$ 1,525,499	\$ 1,658,713	\$ 45,657,990	\$ 261,431

The accompanying notes are an integral part of these financial statements

CITY OF MURRAY, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	Business-type Activities				Totals	Governmental Activities
	Sewer	Gas	Sanitation	Stormwater		Internal Service
Operating Revenues						
Charges for services	\$ 4,487,894	\$ 6,792,834	\$ 2,025,448	\$ 227,747	\$ 13,533,923	\$ -
Interfund services provided	-	-	-	-	-	734,532
Tap-on fees	76,252	69,043	-	-	145,295	-
Miscellaneous revenues	383,333	49,178	13,586	-	446,097	-
Contributions to medical insurance fund	-	-	-	-	-	-
Total operating revenues	<u>4,947,479</u>	<u>6,911,055</u>	<u>2,039,034</u>	<u>227,747</u>	<u>14,125,315</u>	<u>1,701,485</u>
Operating expenses						
Water plant expenses	739,927	-	-	-	739,927	-
Sewer plant expenses	1,307,465	-	-	-	1,307,465	-
Water and sewer field operations	798,759	-	-	-	798,759	-
Engineering operations	282,763	298,023	-	-	580,786	-
General office operations	490,243	438,689	-	-	928,932	-
Administrative expenses	457,976	175,719	-	-	633,695	365,454
Other operating expenses	-	68,350	-	-	68,350	727,059
Depreciation	1,329,030	300,180	207,995	34,631	1,871,836	7,795
Gas purchased	-	4,783,161	-	-	4,783,161	-
Gas plant expenses	-	911,727	-	-	911,727	-
Transfer station and landfill expenses	-	-	2,337,311	-	2,337,311	-
Stormwater expenses	-	-	-	150,329	150,329	-
Medical claims paid	-	-	-	-	-	1,558,312
Total operating expenses	<u>5,406,163</u>	<u>6,975,849</u>	<u>2,545,306</u>	<u>184,960</u>	<u>15,112,278</u>	<u>2,658,620</u>
Operating income (loss)	<u>(458,684)</u>	<u>(64,794)</u>	<u>(506,272)</u>	<u>42,787</u>	<u>(986,963)</u>	<u>(222,603)</u>
Non-operating Revenues (Expenses)						
Interest and dividend income	43,244	95,692	10,727	5,314	154,977	752
Interest expense	(103,580)	(9,829)	-	-	(113,409)	-
Gain (loss) on sale of assets	3,650	15,696	-	-	19,346	(814)
Grant income	603,726	-	18,116	26,928	648,770	-
Total non-operating revenues (expenses)	<u>547,040</u>	<u>101,559</u>	<u>28,843</u>	<u>32,242</u>	<u>709,684</u>	<u>(62)</u>
Income (loss) before operating transfers	<u>88,356</u>	<u>36,765</u>	<u>(477,429)</u>	<u>75,029</u>	<u>(277,279)</u>	<u>(222,665)</u>
Operating Transfers						
From (to) other funds	(85,000)	(100,000)	(85,000)	-	(270,000)	-
Total operating transfers	<u>(85,000)</u>	<u>(100,000)</u>	<u>(85,000)</u>	<u>-</u>	<u>(270,000)</u>	<u>-</u>
Net income (loss)	<u>3,356</u>	<u>(63,235)</u>	<u>(562,429)</u>	<u>75,029</u>	<u>(547,279)</u>	<u>(222,665)</u>
Net assets, beginning of year	<u>26,576,020</u>	<u>11,179,894</u>	<u>1,831,709</u>	<u>1,572,781</u>	<u>41,160,404</u>	<u>87,592</u>
Net assets, end of year	<u>\$ 26,579,376</u>	<u>\$ 11,116,659</u>	<u>\$ 1,269,280</u>	<u>\$ 1,647,810</u>	<u>\$ 40,613,125</u>	<u>\$ (135,073)</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, 2012

	Business-type Activities				Totals	Governmental Activities
	Water and Sewer	Natural Gas	Sanitation	Stormwater		Internal Service
Cash Flows From Operating Activities						
Cash received from customers	\$ 4,937,368	\$ 7,169,867	\$ 2,047,814	\$ 244,712	\$ 14,399,761	\$ -
Cash paid to suppliers	(2,535,663)	(6,441,746)	(1,264,176)	(245,788)	(10,487,373)	(652,588)
Cash paid to employees	(1,319,643)	(871,907)	(786,516)	(38,180)	(3,016,246)	(75,598)
Cash received from interfund services provided	-	-	-	-	-	491,863
Cash paid for internal services used	(95,275)	(100,016)	(275,264)	(1,812)	(472,367)	-
Receipts of customer deposits	1,340	2,680	-	-	4,020	-
Refunds of customer deposits	-	-	-	-	-	-
Net cash provided (used) by operating activities	<u>988,127</u>	<u>(241,122)</u>	<u>(278,142)</u>	<u>(41,068)</u>	<u>427,795</u>	<u>(236,323)</u>
Cash Flows From Noncapital Financing Activities						
Transfers (to) other funds	(85,000)	(100,000)	(85,000)	-	(270,000)	-
Non-operating state grant received	603,726	-	18,117	26,928	648,771	-
Net cash provided (used) by noncapital financing activities	<u>518,726</u>	<u>(100,000)</u>	<u>(66,883)</u>	<u>26,928</u>	<u>378,771</u>	<u>-</u>
Cash Flows From Capital And Related Financing Activities						
Proceeds from sale of capital assets	13,073	31,447	-	-	44,520	-
Acquisition and construction of capital assets	(1,580,941)	(462,758)	(90,929)	(189,447)	(2,324,075)	(9,527)
Principal paid on capital debt	(424,831)	-	-	-	(424,831)	-
Interest paid on capital debt	(98,313)	-	-	-	(98,313)	-
Interest paid on customer deposits	(3,986)	(5,075)	-	-	(9,061)	-
Net cash provided (used) by capital and related financing activities	<u>(2,094,998)</u>	<u>(436,386)</u>	<u>(90,929)</u>	<u>(189,447)</u>	<u>(2,811,760)</u>	<u>(9,527)</u>
Cash Flows From Investing Activities						
Interest and dividends	43,244	95,692	10,727	5,314	154,977	1,566
Purchases of investments	-	-	-	-	-	(205,500)
Proceeds from sale or maturities of investments	350,000	850,000	-	-	1,200,000	152,365
Net cash provided (used) by investing activities	<u>393,244</u>	<u>945,692</u>	<u>10,727</u>	<u>5,314</u>	<u>1,354,977</u>	<u>(51,569)</u>
Net increase (decrease) in cash and cash equivalents	(194,901)	168,184	(425,227)	(198,273)	(650,217)	(297,419)
Cash and cash equivalents at beginning of year	1,434,098	3,302,094	(43,795)	366,550	5,058,947	251,070
Cash and cash equivalents at end of year	<u>\$ 1,239,197</u>	<u>\$ 3,470,278</u>	<u>\$ (469,022)</u>	<u>\$ 168,277</u>	<u>\$ 4,408,730</u>	<u>\$ (46,349)</u>
Cash and cash equivalents are included on the Statement of Net Assets under the following captions:						
Cash in banks and on hand	(149,723)	3,331,588	(469,022)	168,277	2,881,120	(67,580)
Restricted assets	1,388,920	138,690	-	-	1,527,610	21,231
Total	<u>\$ 1,239,197</u>	<u>\$ 3,470,278</u>	<u>\$ (469,022)</u>	<u>\$ 168,277</u>	<u>\$ 4,408,730</u>	<u>\$ (46,349)</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	(458,684)	(64,794)	(506,272)	42,787	(986,963)	(222,603)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation expense	1,329,030	300,180	207,995	34,631	1,871,836	7,795
(Increase)Decrease in certain assets:						
Receivables - Customers	(10,113)	108,437	9,254	16,964	124,542	-
Receivables - Other	-	(38)	-	-	(38)	1,489
Due from other funds	-	150,412	(476)	-	149,936	3,253
Inventory	26,244	(29,542)	-	-	(3,298)	5,043
Increase (Decrease) in certain liabilities:						
Accounts payable	91,599	(707,634)	-	7,665	(608,370)	(34,262)
Accrued expenses	8,711	(823)	-	549	8,437	2,962
Customer deposits	1,340	2,680	(11,278)	-	(7,258)	-
Due to other funds	-	-	22,635	(143,664)	(121,029)	-
Net cash provided (used) by operating activities	<u>\$ 988,127</u>	<u>\$ (241,122)</u>	<u>\$ (278,142)</u>	<u>\$ (41,068)</u>	<u>\$ 427,795</u>	<u>\$ (236,323)</u>

The accompanying notes are an integral part of these financial statements

CITY OF MURRAY, KENTUCKY
STATEMENT OF FIDUCIARY FUNDS NET ASSETS

June 30, 2012

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	
	<u>Employee Retirement</u>	<u>Cemetery</u>	<u>Totals</u>
Assets			
Receivables	\$ -	\$ 6,505	\$ 6,505
Restricted assets:			
Cash	9,759	158,990	168,749
Investments, at fair value	857,547	-	857,547
Total assets	<u>867,306</u>	<u>165,495</u>	<u>1,032,801</u>
Liabilities			
Accounts payable	-	7,469	7,469
Due to other funds	-	258	258
Total liabilities	<u>-</u>	<u>7,727</u>	<u>7,727</u>
Net Assets			
Assets held in trust for pension benefits and other purposes	867,306	157,768	1,025,074
Total liabilities and net assets	<u>\$ 867,306</u>	<u>\$ 165,495</u>	<u>\$ 1,032,801</u>

The accompanying notes are an integral part of these financial statements

CITY OF MURRAY, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Year Ended June 30, 2012

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	<u>Totals</u>
	<u>Retirement</u>	<u>Cemetery</u>	
Additions:			
Contributions	\$ 142,851	\$ 10,000	\$ 152,851
Cemetery sales	-	35,965	35,965
Investment income:	-	-	-
Interest and dividends	23,006	1,393	24,399
Net (decrease) increase in fair value of investments	9,798	-	9,798
Gain (loss) on sale of assets	(6,398)	-	(6,398)
	<u>169,257</u>	<u>47,358</u>	<u>216,615</u>
Deductions:			
Benefits	165,212	-	165,212
Administrative expenses	10,397	12,124	22,521
Repairs and maintenance	-	31,619	31,619
Total deductions	<u>175,609</u>	<u>43,743</u>	<u>219,352</u>
Changes in net assets	(6,352)	3,615	(2,737)
Net assets, beginning of the year	<u>873,658</u>	<u>154,153</u>	<u>1,027,811</u>
Net assets, end of the year	<u>\$ 867,306</u>	<u>\$ 157,768</u>	<u>\$ 1,025,074</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, 2012

The accounting methods and procedures adopted by the City of Murray, Kentucky, conform to generally accepted accounting principles as applied to governmental entities.

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. The City has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets/fund equity, 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 funds are grouped into three fund types and six generic funds as described below:

Governmental fund types

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.

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.

Proprietary fund types

These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds and Internal Service Funds.

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.

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, 2012

Fiduciary fund types

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 are as follows:

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 funds that are to be used 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 Assets 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 reconciliation 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 except for proprietary funds which are presented in separate columns at the City's discretion. The internal service fund is presented in a single column on the face of the proprietary fund statements.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Governmental fund types use the modified accrual basis of accounting and the flow of expendable 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 available criterion is satisfied when revenues are collectible during the period and the actual 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 flow of all 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, which 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.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

H. Property, Plant, and Equipment

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

In the government-wide financial statements, all fixed assets are valued at historical cost or estimated historical cost if actual is unavailable. 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 Assets.

In the governmental funds statements, fixed assets are accounted for as capital expenditures of the fund upon acquisition.

Property, plant, and equipment acquired for proprietary funds is capitalized in the respective funds to which it applies.

Property, plant, and equipment is stated at cost.

Depreciation of exhaustible fixed assets used by proprietary funds is charged as an expense against operations, and accumulated depreciation is reported on the proprietary funds' balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation.

The estimated useful lives for each major class of depreciable fixed 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. Bond Issue and Loan Costs

Bond issue costs and discounts incurred in the issuance of revenue bonds are deferred and charged to expense over the terms of the related issues. At June 30, 2012, the City had no unamortized bond issue costs and discounts.

J. 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 specific purposes.

K. 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.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
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All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable and bonds payable.

L. Compensated Absences

Under terms of employment the City provides full-time employees with paid vacation and sick leave in varying amounts based on years of service. Employees who have accrued 36 days unused sick leave at the end of the fiscal year are paid for 75% of the sick leave accrued. Employees who have met the minimum accruals and have used 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 50% toward early retirement.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period. These amounts are recorded in the account "Accrued Compensated Absences" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported.

All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured and are payable with expendable available resources.

M. Equity Classification

Government-wide Statements

Equity is classified as net assets and is displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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, 2012, none of the City's fund balances were classified as nonspendable.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

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

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

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

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

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

N. Property Tax Revenues

Property taxes are levied based on the assessed value of property as listed on the previous January 1, and due on October 31. Assessed values are an approximation of market value.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Proper allowances are made for estimated uncollectible accounts and delinquent accounts.

O. Postemployment Healthcare Benefits

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

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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. Thus, the budgetary financial statements included in this report do not include proprietary funds, or Trust and Agency Funds. For each of the funds for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles. For this reason, there is no common basis for preparing a reconciliation between budgeted and actual amounts.

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 added to the original budgeted amount.

B. Deficit Fund Balance

A deficit of \$152,674 exists in the Medical Insurance Fund resulting from excess accrued claims incurred but not reported. The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur.

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", "certificates of deposit" and "restricted assets".

	Carrying Amount	Bank Balance
Cash and cash equivalents	\$ 4,866,205	\$ 6,211,241
Certificates of deposit	2,730,774	2,730,774
Restricted cash and C.D.'s	3,718,317	3,105,287
Total deposits	\$ 11,315,296	\$ 12,047,302
Insured (FDIC)	\$ 780,774	\$ 780,774
Uninsured;		
Collateral held by pledging bank's trust department in City's name	10,534,522	11,266,528
Total Deposits	11,315,296	12,047,302
 Reconciliation to Government-wide Statement of Net Assets:		
Unrestricted cash, including time deposits	\$ 7,596,979	
Restricted cash, including time deposits	3,549,568	
Fiduciary fund restricted cash (not included in government-wide statements)	168,749	
	\$ 11,315,296	

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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.

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 Medical Insurance Fund totaled \$857,547 and \$180,334, respectively, at June 30, 2012 and are summarized below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>Moody's Rating</u>
FNMA	\$ 128,952	12.7%	Aaa
FHLMC	104,952	10.3%	Aaa
FHLB	50,111	4.9%	Aaa
Goldman Sachs	53,514	5.3%	A3
DuPont	52,251	5.1%	A2
Merrill Lynch	25,847	2.5%	Baa3
John Hancock	25,146	2.5%	A2
IBM	51,627	5.1%	Aa3
HSBC	27,074	2.7%	Baa1
Verizon	78,698	7.7%	A3
Walmart	52,171	5.1%	Aa2
Common Stock	246,633	24.2%	Unrated
Mutual Funds	121,309	11.9%	Unrated

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 City's investments 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, 2012, 100% of the City's investments in U.S. obligations and corporate bonds were rated Aaa to Baa3.

Concentration 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, 2012, the City's concentration of credit risk consisted of 12.7% invested in Federal National Mortgage Association bonds, 10.3% invested in Federal Home Loan Mortgage Corporation bonds, 4.9% in Federal Home Loan Bank bonds, 5.3% in Goldman Sachs corporate bonds, 5.1% in Dupont corporate bonds, and 5.1% in International Business Systems corporate bonds.

C. Property Taxes

The City is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state legislation. The following dates are applicable to property taxes:

Assessment date - January 1
Levy date - September 30
Due dates - October 31

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Property taxes receivable as of June 30, 2012, are composed of the following:

<u>Year of Levy</u>	<u>General Fund</u>
2011	66,867
2010	15,719
2009	13,564
2008	9,794
2007	4,576
2006	3,785
2005	4,050
2004	3,953
Total property taxes receivable	<u>122,308</u>
Less allowance for uncollectibles	<u>(27,096)</u>
Net Property Taxes Receivable	<u><u>\$ 95,212</u></u>

D. Interfund Transactions

As of June 30, 2012, interfund receivables and payables that resulted from various interfund transactions were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
Fiduciary Funds:	\$ -	\$ 258
Internal Service Funds:	258	-
Total	<u>\$ 258</u>	<u>\$ 258</u>

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Tourism Commission	Room Tax Receipts	211,424
E-911	General	Administration	75,000
Water and Sewer	General	General Operations	85,000
Natural Gas	General	General Operations	100,000
Sanitation	General	General Operations	85,000
ABC	General	General Operations	100,000

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

E. Property, Plant, and Equipment

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2012</u>
Governmental Activities:				
Buildings	\$ 1,109,711	\$ 123,569	\$ -	\$ 1,233,280
Land	344,589	-	-	344,589
Machinery & equipment	2,828,310	238,572	(74,043)	2,992,839
Infrastructure	7,459,565	592,135	-	8,051,700
Totals at historical cost	<u>11,742,175</u>	<u>954,276</u>	<u>(74,043)</u>	<u>12,622,408</u>
Less accumulated depreciation:				
Buildings	(702,340)	(20,757)	-	(723,097)
Machinery & equipment	(3,157,369)	(274,156)	74,043	(3,357,482)
Infrastructure	(1,094,146)	(255,199)	-	(1,349,345)
Total accumulated depreciation	<u>(4,953,855)</u>	<u>(550,112)</u>	<u>74,043</u>	<u>(5,429,924)</u>
Governmental activities capital assets, net	<u>\$ 6,788,320</u>	<u>\$ 404,164</u>	<u>\$ -</u>	<u>\$ 7,192,484</u>

Depreciation was charged to functions as follows:

Governmental Activities:	
General Government	\$ 42,079
Police Department	116,284
Fire Department	72,813
Street Department	318,936
Total Governmental Activities	<u>550,112</u>
Depreciation Expense	<u>\$ 550,112</u>

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2012</u>
Business-type Activities:				
Land	\$ 1,380,144	\$ 5,000	\$ -	\$ 1,385,144
Buildings	2,414,614	9,500	-	2,424,114
Machinery and equipment	7,757,292	516,356	(78,756)	8,194,892
Drainage improvement	1,372,563	186,447	-	1,559,010
Utility plant	56,554,481	1,606,770	(72,640)	58,088,611
Totals at historical cost	<u>69,479,094</u>	<u>2,324,073</u>	<u>(151,396)</u>	<u>71,651,771</u>
Less accumulated depreciation:				
Buildings	(1,314,296)	(89,938)	-	(1,404,234)
Machinery and equipment	(5,951,911)	(380,719)	78,756	(6,253,874)
Drainage improvement	(52,237)	(34,284)	-	(86,521)
Utility plant	(26,637,693)	(1,366,926)	47,911	(27,956,708)
Total accumulated depreciation	<u>(33,956,137)</u>	<u>(1,871,867)</u>	<u>126,667</u>	<u>(35,701,337)</u>
Business-type Activities Capital Assets, Net	<u>\$ 35,522,957</u>	<u>\$ 452,206</u>	<u>\$ (24,729)</u>	<u>\$ 35,950,434</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Financial Accounting Standards Board (FASB) Statement No. 34 (Capitalization of Interest Cost) requires that interest expenditures incurred during construction of assets be capitalized. FAS-63 (Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants) concludes that constructed assets financed with the proceeds of tax-exempt debt (if those funds are externally restricted to finance the acquisitions of the asset or used to service the related debt) should include capitalized interest only to the extent that interest cost exceeds interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowing. During the year, no interest costs were capitalized because interest expenditures related to constructed assets did not exceed related interest revenue.

F. Restricted Assets

The City of Murray maintains certain special funds. The use of these funds has been restricted by the provisions of bond resolutions, loan agreements or by state or federal law and regulations. As required by the City's permit with the Kentucky Division of Solid Waste, the City maintains a reserve of \$292,250 for landfill postclosure costs. Restricted assets are as follows:

	Cost	Market
<u>Governmental Activities</u>		
General Fund - CDBG Housing	\$ 49,104	\$ 49,104
Special Revenue Funds	430,604	430,604
Total Governmental Activities	479,708	479,708
<u>Business-type Activities</u>		
Water and Sewer - Meter deposits	260,855	260,855
Bond and interest reserve	1,378,065	1,378,065
Renewal and replacement	775,000	775,000
Natural Gas - Meter Deposits	363,690	363,690
Sanitation - Landfill Postclosure Reserve	292,250	292,250
Total Business-type Activities	3,069,860	3,069,860
Total Restricted Assets	\$ 3,549,568	\$ 3,549,568

G. Retirement Plans, Deferred Compensation Plans and Commitments

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.

The payroll for employees covered by CERS for the year ended June 30, 2012, was \$6,407,281. The City's total payroll was \$7,203,713.

Police and Fireman's Pension Fund

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.

Under provisions of state statutes, all full-time hazardous position employees are required to contribute 8% of their gross earnings to the plan and the City is required to contribute 35.76% of covered payroll. The contribution requirement for the year ended June 30, 2012 was \$1,069,574, which consisted of \$872,118 from the City and \$197,456 from employees.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Former employees of the police and fire departments who were receiving benefits on August 1, 1988, were not transferred to the CERS. These benefits are continuing to be paid from the original fund, which had net plan assets with a market value of \$867,306 as of June 30, 2012.

Other Employee Plans

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 18.96% of covered payroll. The contribution requirement for the year ended June 30, 2012, was \$905,869, which consisted of \$714,531 from the City and \$197,339 from employees. All pension, death and disability benefits are determined by state statutes.

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

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
6/30/12	\$ 1,586,549	100%
6/30/11	1,369,371	100%
6/30/10	1,201,494	100%

CERS does not make separate measurements of assets and pension benefit obligation for individual employers. As the City is only one of several employers participating in the plan, it is not practical to determine the City's portion of the unfunded past service cost or the vested benefits of the City's portion of the plan assets.

H. Long-Term Debt

The following is a summary of the City's notes payable transactions for the year ended June 30, 2012.

	<u>Balance June 30, 2011</u>	<u>New Debt</u>	<u>Repayments</u>	<u>Balance June 30, 2012</u>
Business-type Activities -				
KADD	\$ 1,035,000	\$ -	\$ 65,000	\$ 970,000
RLF	904,947	-	295,964	608,983
KIA	1,115,693	-	56,868	1,058,825
	<u>3,055,640</u>	<u>-</u>	<u>417,832</u>	<u>2,637,808</u>
Governmental Activities -				
US BANK	293,977	-	31,348	262,629
	<u>293,977</u>	<u>-</u>	<u>31,348</u>	<u>262,629</u>
Totals	<u>\$ 3,349,617</u>	<u>\$ -</u>	<u>\$ 449,180</u>	<u>\$ 2,900,437</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Notes payable at June 30, 2012 are summarized, as follows:

Kentucky Area Development Districts Financing Trust (due in scheduled maturities through May 20, 2023 at 1.5% to 4.7%)	\$ 970,000
Kentucky Infrastructure Authority Revolving Loan Fund - (due in scheduled maturities through 2014 at 1.9%)	608,983
Kentucky Infrastructure Authority Revolving Loan Fund - (due in scheduled maturities commencing on December 1, 2009 and continuing through June 1, 2029 at 1%)	1,058,825
	2,637,808
 <u>General Fund</u>	
US Bank Term Loan (due in scheduled maturities through November 1, 2019)	262,629
	262,629
Total	\$ 2,900,437

The following is a schedule by years of principal payments due for the notes payable:

Year Ending	Murray Water and Sewer System	General Fund	Total
2013	429,051	28,770	457,821
2014	440,385	32,778	473,163
2015	133,595	34,239	167,834
2016	139,183	35,766	174,949
2017	144,776	37,345	182,121
Thereafter	1,350,818	93,731	1,444,549
Total	\$ 2,637,808	\$ 262,629	\$ 2,900,437

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

The following is a summary of the City's bonds payable transactions for the year ended June 30, 2012.

	<u>June 30, 2011</u>	<u>Debt</u>	<u>Repayments</u>	<u>Retirement</u>	<u>June 30, 2012</u>
Business-type Activities -					
2001 Revenue Bonds	\$ 483,000	\$ -	\$ 7,000	\$ -	\$ 476,000

Bonds payable at June 30, 2012 are as follows:

2001 Revenue Bonds - (due in scheduled maturities through January 1, 2041 at 4.75%)	<u>\$ 476,000</u>
	<u>Water and Sewer System</u>
	<u>\$ 476,000</u>

The following is a schedule by years of principal payments due for the bonds payable:

<u>Year Ending</u>	<u>2001 Bond Issue</u>
2013	\$ 8,000
2014	8,000
2015	8,000
2016	9,000
2017	9,000
Thereafter	434,000
Total	<u>\$ 476,000</u>

The annual debt service requirements to maturity, including principal and interest, for all long-term debt as of June 30, 2012, are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	28,770	10,910	437,051	88,647
2014	32,778	10,510	448,385	78,622
2015	34,239	9,049	141,595	69,845
2016	35,766	7,522	148,183	65,910
2017	37,345	5,943	153,776	61,411
2018-2022	93,731	6,785	836,991	230,642
2023-2027	-	-	501,742	108,101
2028-2032	-	-	223,085	68,089
2033-2037	-	-	113,000	42,798
2038-2042	-	-	110,000	13,443
Total	<u>\$ 262,629</u>	<u>\$ 50,719</u>	<u>\$ 3,113,808</u>	<u>\$ 827,508</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

I. Conduit Debt Obligations

As of June 30, 2012, the City of Murray had the following bond issues outstanding related to the acquisition and construction of facilities:

Murray State University Wellness & Recreation	\$ 9,175,000
Murray Calloway County Hospital	<u>15,000,000</u>
Total principal amounts payable	<u>\$ 24,175,000</u>

J. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for 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 fro 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 submits preliminary check registers for all processed claims. The City issues payment to the plan 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, 2012 was estimated using information provided by the third-party administrators.

Changes in the fund's claims liability amounts are:

	<u>2012</u>
Balances at beginning of year	\$ 379,867
Current year claims	1,558,312
Claim payments	<u>(1,583,940)</u>
Balance at end of year	<u>\$ 354,239</u>

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 resolution 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, 2012, significant amounts of grants 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MURRAY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2012

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
Revenues				
Property taxes	\$ 3,397,000	\$ 3,397,000	\$ 3,416,337	\$ 19,337
Insurance tax	1,600,000	1,600,000	1,655,656	55,656
Vehicle license tax	690,000	690,000	731,261	41,261
Franchise taxes	245,000	245,000	-	(245,000)
Occupational business licenses	205,000	205,000	257,634	52,634
Payments in lieu of taxes	7,500	7,500	10,341	2,841
Bank shares	96,500	96,500	99,875	3,375
Licenses and permits	26,100	26,100	39,964	13,864
Fines and fees	9,000	9,000	14,395	5,395
Intergovernmental revenue	37,000	37,000	39,419	2,419
Interest	45,000	45,000	35,643	(9,357)
Miscellaneous income	53,500	53,500	90,386	36,886
Grant funds received	3,363,000	3,375,627	545,518	(2,830,109)
Transient room tax	165,000	177,627	211,424	33,797
Total revenues	<u>9,939,600</u>	<u>9,964,854</u>	<u>7,147,853</u>	<u>(2,817,001)</u>
Expenditures				
General government	4,269,975	4,269,975	1,565,476	2,704,499
Police department	2,775,700	2,775,700	2,787,521	(11,821)
Fire department	2,672,650	2,703,879	2,590,160	113,719
Animal control	25,000	25,000	25,000	-
Street department	654,500	654,500	618,161	36,339
Planning and zoning	304,500	304,500	269,309	35,191
Debt service:				
Principal	-	-	31,347	(31,347)
Interest	-	-	11,940	(11,940)
Total expenditures	<u>10,702,325</u>	<u>10,733,554</u>	<u>7,898,914</u>	<u>2,834,640</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(762,725)</u>	<u>(768,700)</u>	<u>(751,061)</u>	<u>17,639</u>
Other Financing Sources (Uses):				
Transfers from other funds	445,000	445,000	445,000	-
Transfers to other funds	(165,000)	(165,000)	(211,424)	(46,424)
Loan proceeds	-	-	-	-
Total other financing sources (uses)	<u>280,000</u>	<u>280,000</u>	<u>233,576</u>	<u>(46,424)</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>(482,725)</u>	<u>(488,700)</u>	<u>(517,485)</u>	<u>(28,785)</u>
Fund balance, beginning of year	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,910,712</u>	<u>410,712</u>
Fund balance, end of year	<u>\$ 1,017,275</u>	<u>\$ 1,011,300</u>	<u>\$ 1,393,227</u>	<u>\$ 381,927</u>

See Independent Auditor's Report

CITY OF MURRAY KENTUCKY
SCHEDULE OF FUNDING PROGRESS FOR RETIREE'S HEALTH PLAN
For the Year Ended June 30, 2012

The following table presents the County Employees Retirement System (CERS) schedule of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets (000's)	Liability (AAL) Entry Age (000's)	Unfunded AAL (UAAL) (000's)	Funded Ratio Total	Covered Payroll (000's)	UAAL as a Percentage of Covered Payroll
6/30/2009	\$ 7,402,278	\$ 10,491,358	\$ 3,089,080	70.6%	\$2,652,927	116.4%
6/30/2010	7,296,321	11,131,175	3,834,853	65.5%	2,703,404	141.9%
6/30/2011	7,409,155	11,777,126	4,367,970	62.9%	2,743,560	159.2%

CERS does not make separate measurements of assets and pension benefit obligation for individual employers. As the City is only one of several employers participating in the plan, it is not practical to determine the City's portion of the unfunded past service cost or the vested benefits of the City's portion of the plan assets.

OTHER SUPPLEMENTARY INFORMATION

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

June 30, 2012

	Street Paving	E-911	Tourism Commission	Freedom Fest	Drug Court Awards Fund	LGEA	Alcoholic Beverage Control	Totals
Cash	\$ -	\$ -	\$ 118,924	\$ 748	\$ -	\$ -	\$ -	\$ 119,672
Investments - CD's	-	-	30,774	-	-	-	-	30,774
Accounts receivable	-	4,421	-	-	-	-	10,710	15,131
Due from other funds	-	-	-	-	-	-	-	-
Restricted assets	223,616	49,792	-	-	32,305	4,678	98,982	409,373
Total assets	\$ 223,616	\$ 54,213	\$ 149,698	\$ 748	\$ 32,305	\$ 4,678	\$ 109,692	\$ 574,950
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ 90,223	\$ 5,262	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95,485
Due to other funds	-	-	11,740	-	-	-	-	11,740
Total liabilities	90,223	5,262	11,740	-	-	-	-	107,225
Fund Balances:								
Restricted	133,393	48,951	-	-	32,305	4,678	98,982	318,309
Unrestricted;	-	-	137,958	-	-	-	-	137,958
Committed	-	-	-	748	-	-	-	748
Assigned	-	-	-	-	-	-	10,710	10,710
Total fund balance	133,393	48,951	137,958	748	32,305	4,678	109,692	467,725
Total liabilities and fund balances	\$ 223,616	\$ 54,213	\$ 149,698	\$ 748	\$ 32,305	\$ 4,678	\$ 109,692	\$ 574,950

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
June 30, 2012

	Street Paving	E-911	Tourism Commission	Freedom Fest	Drug Court Awards Fund	LGEA	Alcoholic Beverage Control	Totals
Revenues								
Intergovernmental revenue	\$ 328,553	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 328,553
Interest earned	4,338	1,185	116	5	14	61	1,027	6,746
Telephone line charges	-	153,059	-	-	-	-	-	153,059
Other	-	-	22,487	38,153	-	554	160,911	222,105
Court awards	-	-	-	-	19,223	-	-	19,223
Total revenues	<u>332,891</u>	<u>154,244</u>	<u>22,603</u>	<u>38,158</u>	<u>19,237</u>	<u>615</u>	<u>161,938</u>	<u>729,686</u>
Expenditures								
Street department	408,198	-	-	-	-	-	-	408,198
E-911	-	142,377	-	-	-	-	-	142,377
Tourism commission	-	-	245,144	-	-	-	-	245,144
Freedom fest	-	-	-	66,790	-	-	-	66,790
Drug court awards	-	-	-	-	8,291	-	-	8,291
LGEA	-	-	-	-	-	-	-	-
Total expenditures	<u>408,198</u>	<u>142,377</u>	<u>245,144</u>	<u>66,790</u>	<u>8,291</u>	<u>-</u>	<u>-</u>	<u>870,800</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(75,307)</u>	<u>11,867</u>	<u>(222,541)</u>	<u>(28,632)</u>	<u>10,946</u>	<u>615</u>	<u>161,938</u>	<u>(141,114)</u>
Other Financing Sources (Uses)								
Transfers from other funds	-	-	211,424	16,000	-	-	-	227,424
Transfers to other funds	-	(75,000)	(16,000)	-	-	-	(100,000)	(191,000)
Total other financing sources (uses)	<u>-</u>	<u>(75,000)</u>	<u>195,424</u>	<u>16,000</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>	<u>36,424</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>(75,307)</u>	<u>(63,133)</u>	<u>(27,117)</u>	<u>(12,632)</u>	<u>10,946</u>	<u>615</u>	<u>61,938</u>	<u>(104,690)</u>
Fund balance, beginning of year	<u>208,700</u>	<u>112,084</u>	<u>165,075</u>	<u>13,380</u>	<u>21,359</u>	<u>4,063</u>	<u>47,754</u>	<u>572,415</u>
Fund balance, end of year	<u>\$ 133,393</u>	<u>\$ 48,951</u>	<u>\$ 137,958</u>	<u>\$ 748</u>	<u>\$ 32,305</u>	<u>\$ 4,678</u>	<u>\$ 109,692</u>	<u>\$ 467,725</u>

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2012

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Current Assets			
Cash and cash equivalents	\$ (67,580)	\$ -	\$ (67,580)
Investments, at fair value	-	180,334	180,334
Accounts receivable	5,524	-	5,524
Due from other funds	14,295	-	14,295
Materials and supplies, at average cost	54,095	-	54,095
Total current assets	<u>6,334</u>	<u>180,334</u>	<u>186,668</u>
Non-Current Assets			
Buildings	225,000	-	225,000
Machinery and equipment	114,543	-	114,543
Accumulated depreciation	(286,011)	-	(286,011)
Restricted cash	-	21,231	21,231
Total non-current assets	<u>53,532</u>	<u>21,231</u>	<u>74,763</u>
Total assets	<u>\$ 59,866</u>	<u>\$ 201,565</u>	<u>\$ 261,431</u>
Liabilities			
Current Liabilities			
Accounts payable	15,336	90,263	105,599
Accrued salaries	3,695	-	3,695
Accrued compensated absences	8,607	-	8,607
Due to other funds	-	-	-
Accrued claims incurred but not reported	-	263,976	263,976
Total current liabilities	<u>27,638</u>	<u>354,239</u>	<u>381,877</u>
Long-term Liabilities			
Accrued compensated absences	14,627	-	14,627
Total long-term liabilities	<u>14,627</u>	<u>-</u>	<u>14,627</u>
Total liabilities	<u>42,265</u>	<u>354,239</u>	<u>396,504</u>
Net Assets			
Invested in capital assets, net	53,532	-	53,532
Restricted	-	21,231	21,231
Unrestricted	(35,931)	(173,905)	(209,836)
Total net assets	<u>17,601</u>	<u>(152,674)</u>	<u>(135,073)</u>
Total liabilities and net assets	<u>\$ 59,866</u>	<u>\$ 201,565</u>	<u>\$ 261,431</u>

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
INTERNAL SERVICE FUNDS
Year ended June 30, 2012

	Central Garage	Medical Insurance Fund	Totals
Operating Revenues			
Charges for services	\$ -	\$ -	\$ -
Charges for interfund services	734,532	-	734,532
Contributions to fund	-	1,701,485	1,701,485
Total operating revenues	<u>734,532</u>	<u>1,701,485</u>	<u>2,436,017</u>
Operating Expenses			
Depreciation	7,795	-	7,795
Parts rebilled	133,659	-	133,659
Petroleum products rebilled	449,400	-	449,400
Other garage expenses	144,000	-	144,000
Claims paid	-	1,558,312	1,558,312
Administrative costs	-	340,688	340,688
Wellness incentives	-	24,766	24,766
Total operating expenses	<u>734,854</u>	<u>1,923,766</u>	<u>2,658,620</u>
Operating income (loss)	<u>(322)</u>	<u>(222,281)</u>	<u>(222,603)</u>
Non-Operating Revenues (Expenses)			
Interest and dividend income (expenses)	(814)	1,566	752
Gain (loss) on sale of investments	-	(814)	(814)
Total non-operating revenues	<u>(814)</u>	<u>752</u>	<u>(62)</u>
Net income (loss)	(1,136)	(221,529)	(222,665)
Net assets - beginning of year	<u>18,737</u>	<u>68,855</u>	<u>87,592</u>
Net assets - end of year	<u>\$ 17,601</u>	<u>\$ (152,674)</u>	<u>\$ (135,073)</u>

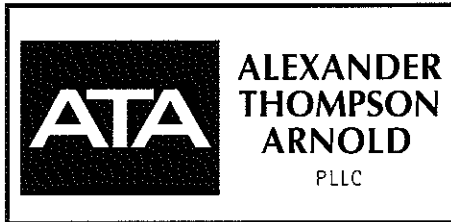
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CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2012

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Cash Flows From Operating Activities			
Cash paid to suppliers	\$ (652,588)	\$ -	\$ (652,588)
Cash paid to employees	(75,598)	-	(75,598)
Cash received for premiums	-	1,701,485	1,701,485
Cash paid for claims	-	(1,948,896)	(1,948,896)
Cash received from interfund services provided	739,274	-	739,274
Net cash provided (used) by operating activities	<u>11,088</u>	<u>(247,411)</u>	<u>(236,323)</u>
Cash Flows From Capital and Related Financing Activities			
Purchases of capital assets	(9,527)	-	(9,527)
Net cash (used) by capital and Related financing activities	<u>(9,527)</u>	<u>-</u>	<u>(9,527)</u>
Cash Flows From Investing Activities			
Interest and dividends	-	1,566	1,566
Purchases of investments	-	(205,500)	(205,500)
Proceeds from sale or maturities of investments	-	152,365	152,365
Net cash (used) by investing activities	<u>-</u>	<u>(51,569)</u>	<u>(51,569)</u>
Net increase (decrease) in cash and cash equivalents	1,561	(298,980)	(297,419)
Cash and cash equivalents at beginning of year	<u>(69,141)</u>	<u>320,211</u>	<u>251,070</u>
Cash and cash equivalents at end of year	<u>\$ (67,580)</u>	<u>\$ 21,231</u>	<u>\$ (46,349)</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	(322)	(222,281)	(222,603)
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	7,795	-	7,795
(Increase) Decrease in certain assets:			
Accounts receivable	1,489	-	1,489
Due from other funds	3,253	-	3,253
Materials and supplies	5,043	-	5,043
Increase (Decrease) in certain liabilities:			
Accounts payable	(9,132)	(25,130)	(34,262)
Accrued expenses	2,962	-	2,962
Due to other funds	-	-	-
Net Cash (Used) by Operating Activities	<u>\$ 11,088</u>	<u>\$ (247,411)</u>	<u>\$ (236,323)</u>

See Independent Auditor's Report

INTERNAL CONTROL AND COMPLIANCE SECTION



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited 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, 2012, which collectively comprise the City of Murray, Kentucky's basic financial statements and have issued our report thereon dated November 5, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Murray, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Murray, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City of Murray, Kentucky's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of management, City Council, and others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Murray, Kentucky

November 5, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	<u>unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no