

CITY OF MURRAY, KENTUCKY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2013

**CITY OF MURRAY, KENTUCKY
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INTRODUCTORY SECTION

CITY OF MURRAY, KENTUCKY

June 30, 2013

CITY COUNCIL

Jeremy Bell
Robert Billington
Linda Cherry
Danny Hudspeth
Mike Faihst
Pete Lancaster
Dan Miller
Jason Pitman
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:

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AICPA Center for Public Company Audit Firms
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Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

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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, 2013, 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, 2013, 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, 37 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information

directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 21, 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
January 21, 2014

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, 2013. 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 \$51,224,000. This represents an increase of \$1,830,000 (3.7%) over the prior year. This relatively small increase is spread among the governmental and business-type activities. A breakout shows 80% (\$40,812,000) in business-type activities and the remaining 20% (\$10,412,000) in governmental activities.
- Total City activities indicate current assets of \$13,398,000 and current and non-current liabilities of \$8,571,000 giving a positive financial picture for liquidity of \$4,827,000.
- For all governmental funds, total funding sources of \$10,001,000 exceed total expenditures of \$8,402,000 by \$1,599,000, increasing the reported fund balance to \$10,412,000.
- For all four business-type activities (Water and Sewer, Natural Gas, Sanitation, and Stormwater) total revenues of \$15,929,000 exceed total expenses of \$15,730,000 by \$199,000.

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 4. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better off or worse as a result of the year's activities?" The Statement of Net Position 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

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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

Governmental Activities

- The largest single receipt category, property taxes, has increased \$195,000 (5.7%) to \$3,611,000.
- The largest total departmental expenditure is the Police Department - \$2,981,000. A year-over-year comparison shows an increase of \$137,000 or 4.8%.
- Grant receipts for the year are \$727,000 – a 33% increase from the prior year.
- Interest income of \$43,000 accounts for only 0.4% of total General Fund receipts.

Business-type Activities

Murray Water and Sewer System

- The Water and Sewer System's total operating revenues are \$5,354,000. When compared to the total operating expenses of \$5,477,000, an operating loss of \$93,000 exists.
- The change in net position is positive \$176,000 when non-operating revenues (\$281,000) and transfers to other funds (\$105,000) are considered.

Murray Natural Gas System

- The Gas System's total operating revenues are \$7,993,000. When compared to the total operating expenses of \$7,728,000, operating income of \$264,000 exists.
- The change in net position is positive \$234,000 when non-operating revenues (\$74,000) and transfers to other funds (\$105,000) are considered.

Sanitation Department

- The Sanitation Department's total operating revenues are \$2,095,000. When compared to the total operating expenses of \$2,269,000, an operating loss of \$174,000 exists.
- The change in net position is a negative \$263,000 when non-operating revenues (\$158,000) and transfers to other funds (\$105,000) are considered.

Stormwater Utility

- The Stormwater Utility's total operating revenues are \$229,000. When compared to the total operating expenses of \$179,000, operating income of \$50,000 exists.
- The change in net position is a positive \$52,000 when non-operating revenues (\$2,000) is considered.

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	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 4,741	\$ 2,893	\$ 9,770	\$ 9,708	\$ 14,511	12,601
Capital assets	7,986	7,192	37,298	35,950	45,284	43,142
Total assets	<u>12,727</u>	<u>10,085</u>	<u>47,068</u>	<u>45,658</u>	<u>59,795</u>	<u>55,743</u>
Long-term debt outstanding	985	263	3,740	3,114	4,725	3,377
Other liabilities	1,330	1,041	2,516	1,931	3,846	2,972
Total liabilities	<u>2,315</u>	<u>1,304</u>	<u>6,256</u>	<u>5,045</u>	<u>8,571</u>	<u>6,349</u>
Net position						
Net investment in capital assets	7,001	6,929	33,558	32,837	40,559	39,766
Restricted	1,049	528	3,386	3,069	4,435	3,597
Unrestricted	<u>2,362</u>	<u>1,324</u>	<u>3,868</u>	<u>4,707</u>	<u>6,230</u>	<u>6,031</u>
Total net position	<u>\$ 10,412</u>	<u>\$ 8,781</u>	<u>\$ 40,812</u>	<u>\$ 40,613</u>	<u>\$ 51,224</u>	<u>\$ 49,394</u>

Table 2
Changes in Net Position
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,218	\$ 1,119	\$ 15,283	\$ 13,679	\$ 16,501	\$ 14,798
Grants	727	546	421	648	1,148	1,194
General revenues:						
Property taxes	3,612	3,416	-	-	3,612	3,416
Franchise taxes	255	254	-	-	255	254
Payments in lieu of taxes	17	10	-	-	17	10
Bank shares	111	100	-	-	111	100
Insurance tax	1,976	1,656	-	-	1,976	1,656
School tax	41	35	-	-	41	35
Base court revenue	14	29	-	-	14	29
Telephone line charges	145	153	-	-	145	153
Transient room tax	217	211	-	-	217	211
Intergovernmental	396	339	-	-	396	339
Interest and investment earnings	43	43	123	154	166	197
Gain on sale of assets	(239)	-	27	19	(212)	19
Miscellaneous	1,154	296	390	446	1,544	742
Transfers	315	270	(315)	(270)	-	-
Total revenues	<u>10,002</u>	<u>8,477</u>	<u>15,929</u>	<u>14,676</u>	<u>25,931</u>	<u>23,153</u>
Program Expenses						
General government	763	1,265	-	-	763	1,265
Community development	741	744	-	-	741	744
Police department	2,981	2,844	-	-	2,981	2,844
Fire department	2,734	2,632	-	-	2,734	2,632
Animal control	4	25	-	-	4	25
Street department	626	694	-	-	626	694
Tourism	288	312	-	-	288	312
Municipal aid	83	28	-	-	83	28
E-911	78	143	-	-	78	143
Alcohol beverage control	69	-	-	-	69	-
Drug court awards	16	8	-	-	16	8
LGEA	-	1	-	-	-	1
Loss on sale of investments	1	-	-	-	1	-
Unallocated interest expense	19	12	-	-	19	12
Water and sewer	-	-	5,542	5,509	5,542	5,509
Natural gas	-	-	7,739	6,985	7,739	6,985
Sanitation	-	-	2,270	2,545	2,270	2,545
Stormwater	-	-	179	184	179	184
Total expenses	<u>8,403</u>	<u>8,708</u>	<u>15,730</u>	<u>15,223</u>	<u>24,133</u>	<u>23,931</u>
Increase (decrease) in net position	<u>\$ 1,599</u>	<u>\$ (231)</u>	<u>\$ 199</u>	<u>\$ (547)</u>	<u>\$ 1,798</u>	<u>\$ (778)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

- In Governmental Activities, additions to property, plant and equipment totals \$1,578,000. A breakdown of the additions indicates \$954,000 is due to machinery and equipment, \$100,000 is due to land, and \$524,000 is due to infrastructure. Total disposals of \$770,000 are comprised entirely in machinery and equipment.
- In the Business-type Activities, additions to property, plant and equipment total \$3,087,000. A breakdown of the additions indicates \$2,263,000 is due to utility plant, \$749,000 is due to machinery and equipment, \$40,000 is due drainage improvement, and \$35,000 is due to buildings. Total disposals of \$485,000 include \$298,000 from machinery and equipment, \$114,000 from buildings, and \$73,000 from utility plant

Debt

- \$850,000 of new debt in General Governmental Activities has been issued during the fiscal year for the purchase of Engine 3 and the Police vehicle fleet.
- \$1,062,000 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 2014 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, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash in banks and on hand	\$ 2,675,870	\$ 2,951,771	\$ 5,627,641
Certificates of deposit	-	2,250,000	2,250,000
Investments at fair value	76,450	-	76,450
Receivables (net of allowance for uncollectible)			
Taxes	445,919	-	445,919
Customer	-	847,646	847,646
Other	362,238	89	362,327
Internal balances	12,156	(12,156)	-
Materials and supplies, at average cost	54,906	346,188	401,094
Total current assets	3,627,539	6,383,538	10,011,077
Non-Current Assets			
Net capital assets	7,985,701	37,298,103	45,283,804
Restricted assets	1,113,721	3,386,342	4,500,063
Total non-current assets	9,099,422	40,684,445	49,783,867
Total assets	12,726,961	47,067,983	59,794,944
Liabilities			
Current Liabilities			
Accounts payable	551,531	1,176,507	1,728,038
Accrued salaries and wages	144,838	93,771	238,609
Accrued compensated absences	69,680	292,027	361,707
Other accrued liabilities	265,943	39,231	305,174
Notes payable	202,977	483,845	686,822
Bonds payable	-	8,000	8,000
Customer deposits	-	558,035	558,035
Accrued interest payable			
Bonds	-	15,965	15,965
Customer deposits	-	154,880	154,880
Total current liabilities	1,234,969	2,822,261	4,057,230
Non-Current Liabilities			
Accrued compensated absences	298,452	185,659	484,111
Notes payable	781,840	2,787,904	3,569,744
Bonds payable	-	460,000	460,000
Total non-current liabilities	1,080,292	3,433,563	4,513,855
Total liabilities	2,315,261	6,255,824	8,571,085
Net Position			
Net investment in capital assets	7,000,884	33,558,354	40,559,238
Restricted for			
CDBG housing	54,892	-	54,892
Special purposes	520,622	-	520,622
Employee Benefits	473,655	-	473,655
Debt service	-	1,676,787	1,676,787
Renewal and replacement	-	775,000	775,000
Meter deposit reserve	-	642,305	642,305
Landfill postclosure reserve	-	292,250	292,250
Unrestricted	2,361,647	3,867,463	6,229,110
Total net position	\$ 10,411,700	\$ 40,812,159	\$ 51,223,859

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	
Functions/Programs					
Governmental activities					
General government	\$ 763,249	\$ 1,218,454	\$ -	\$ -	\$ 455,205
Community development	740,796	-	-	447,468	(293,328)
Police department	2,981,020	-	139,352	-	(2,841,668)
Fire department	2,733,634	-	140,522	-	(2,593,112)
Animal control	4,167	-	-	-	(4,167)
Street department	625,666	-	-	-	(625,666)
Tourism	287,805	-	-	-	(287,805)
Municipal aid	83,211	-	-	-	(83,211)
E-911	77,816	-	-	-	(77,816)
Alcohol beverage control	69,471	-	-	-	(69,471)
Drug court awards	15,646	-	-	-	(15,646)
Loss on sale of investments	1,384	-	-	-	(1,384)
Unallocated interest expense	18,959	-	-	-	(18,959)
Total governmental activities	<u>8,402,824</u>	<u>1,218,454</u>	<u>279,874</u>	<u>447,468</u>	<u>(6,457,028)</u>
Business-type activities					
Water and sewer	5,541,587	5,052,708	-	420,562	(68,317)
Natural gas	7,739,205	7,930,888	-	-	191,683
Sanitation	2,269,776	2,070,215	-	-	(199,561)
Stormwater	179,126	228,837	-	-	49,711
Total business-type activities	<u>15,729,694</u>	<u>15,282,648</u>	<u>-</u>	<u>420,562</u>	<u>(26,484)</u>
Total primary government	<u>\$ 24,132,518</u>	<u>\$ 16,501,102</u>	<u>\$ 279,874</u>	<u>\$ 868,030</u>	<u>\$ (6,483,512)</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, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Change in Net Position			
Net (Expense) Revenue	\$ (6,457,028)	\$ (26,484)	\$ (6,483,512)
General Revenues			
Taxes			
Property taxes	3,611,342	-	3,611,342
Franchise taxes	254,313	-	254,313
Payments in lieu of taxes	16,455	-	16,455
Bank shares	111,164	-	111,164
Insurance tax	1,976,326	-	1,976,326
School tax	41,353	-	41,353
Base court revenue	13,975	-	13,975
Telephone line charges	145,015	-	145,015
Transient room tax	217,060	-	217,060
Intergovernmental	396,259	-	396,259
Interest and investments earnings	43,290	123,356	166,646
Loss on disposal of assets	(239,502)	27,250	(212,252)
Miscellaneous	1,153,666	389,912	1,543,578
Transfers	315,000	(315,000)	-
Total general revenues & transfers	<u>8,055,716</u>	<u>225,518</u>	<u>8,281,234</u>
Change in net position	1,598,688	199,034	1,797,722
Net position - beginning of period	<u>8,813,012</u>	<u>40,613,125</u>	<u>49,426,137</u>
Net position - end of period	<u>\$ 10,411,700</u>	<u>\$ 40,812,159</u>	<u>\$ 51,223,859</u>

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

**CITY OF MURRAY, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,688,878	\$ 100,073	\$ 2,788,951
Receivables			
Taxes (net of allowance for uncollectibles of \$27,096)	445,919	-	445,919
Due from other funds	268,626	64,551	333,177
Other	84,004	254,376	338,380
Restricted assets	119,443	520,622	640,065
Total assets	\$ 3,606,870	\$ 939,622	\$ 4,546,492
Liabilities and Fund Balances			
Current Liabilities			
Accounts payable	\$ 378,543	\$ 27,606	\$ 406,149
Due to other funds	64,551	256,470	321,021
Accrued salaries payable	137,799	3,234	141,033
Accrued compensated absences	298,452	-	298,452
Total current liabilities	879,345	287,310	1,166,655
Fund Balances			
Restricted	119,443	673,878	793,321
Assigned	-	(21,566)	(21,566)
Unassigned	2,608,082	-	2,608,082
Total fund balances	2,727,525	652,312	3,379,837
Total liabilities and fund balances	\$ 3,606,870	\$ 939,622	\$ 4,546,492
<u>Reconciliation Of Total Governmental Fund Balance</u>			
<u>To Net Position Of Governmental Activities</u>			
Total Governmental Fund Balances			\$ 3,379,837
Amounts reported in governmental activities in the statements of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			
			7,939,493
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			
			121,079
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			
			(1,028,709)
Net position of governmental activities			\$ 10,411,700

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, 2013

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Revenues			
Property taxes	\$ 3,611,342	\$ -	\$ 3,611,342
Insurance tax	1,976,326	-	1,976,326
Vehicle license tax	794,849	-	794,849
Franchise taxes	254,313	-	254,313
Occupational business licenses	268,586	-	268,586
Payments in lieu of taxes	16,455	-	16,455
Bank shares	111,164	-	111,164
License and permits	66,437	-	66,437
Fines and fees	18,126	-	18,126
Telephone line charges	-	215,161	215,161
Intergovernmental revenue	23,975	387,103	411,078
Interest	33,719	7,893	41,612
Miscellaneous income	441,965	682,063	1,124,028
Grant funds received	727,342	-	727,342
Transient room tax	217,060	-	217,060
Total revenues	<u>8,561,659</u>	<u>1,292,220</u>	<u>9,853,879</u>
Expenditures			
General government	1,535,212	-	1,535,212
Police department	3,320,740	-	3,320,740
Fire department	3,146,772	-	3,146,772
Animal control	4,167	-	4,167
Street department	675,785	209,031	884,816
Planning and zoning	296,715	-	296,715
E-911	-	77,816	77,816
Tourism commission	-	231,290	231,290
Freedom fest	-	56,514	56,514
Drug court awards	-	15,646	15,646
Alcoholic beverage control	-	69,471	69,471
Debt service			
Principal	109,042	18,778	127,820
Interest	18,487	472	18,959
Total expenditures	<u>9,106,920</u>	<u>679,018</u>	<u>9,785,938</u>
Excess (deficiency) of revenues over expenditures	<u>(545,261)</u>	<u>613,202</u>	<u>67,941</u>
Other Financing Sources (Uses)			
Proceeds from debt	850,008	-	850,008
Transfers from other funds	992,940	217,060	1,210,000
Transfers to other funds	(217,060)	(677,940)	(895,000)
Total other financing sources (uses)	<u>1,625,888</u>	<u>(460,880)</u>	<u>1,165,008</u>
Net change in fund balance	1,080,627	152,322	1,232,949
Fund balance, beginning of year	<u>1,646,898</u>	<u>499,990</u>	<u>2,146,888</u>
Fund balance, end of year	<u>\$ 2,727,525</u>	<u>\$ 652,312</u>	<u>\$ 3,379,837</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, 2013

Net change in fund balance - total governmental funds <i>of activities are different because:</i>	\$ 1,232,949
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.	800,542
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	127,820
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.	31,232
Note proceeds are revenues in the governmental funds, but increases long-term debt in the Statement of Net Assets	(850,008)
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>256,153</u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,598,688</u></u>

The accompanying notes are an integral part of these financial statements

CITY OF MURRAY, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Business-type Activities				Totals	Governmental
	Water and Sewer	Gas	Sanitation	Stormwater		Service
Assets						
Current Assets						
Cash and cash equivalents	\$ -	\$ 4,162,027	\$ -	\$ 225,824	\$ 4,387,851	\$ -
Certificates of deposit	-	1,800,000	450,000	-	2,250,000	-
Receivables (net of allowances for uncollectibles)						
Customer	314,078	340,061	178,649	14,858	847,646	-
Other	-	89	-	-	89	23,858
Investments, at fair value	-	-	-	-	-	76,450
Materials and supplies, at average cost	204,483	141,705	-	-	346,188	54,906
Total current assets	<u>518,561</u>	<u>6,443,882</u>	<u>628,649</u>	<u>240,682</u>	<u>7,831,774</u>	<u>155,214</u>
Non-Current Assets						
Utility plant in service	53,645,443	6,830,802	-	-	60,476,245	-
Land	422,610	908,010	54,524	-	1,385,144	-
Buildings	811,665	1,219,096	314,723	-	2,345,484	225,000
Machinery and equipment	362,200	352,228	-	-	714,428	116,602
Vehicles	614,507	602,187	4,243,375	15,141	5,475,210	-
Other equipment	1,245,534	1,148,665	56,421	4,737	2,455,357	-
Drainage improvement	-	-	-	1,599,278	1,599,278	-
Accumulated depreciation	(28,214,234)	(5,412,614)	(3,383,578)	(142,617)	(37,153,043)	(295,393)
Restricted assets	2,708,443	385,649	292,250	-	3,386,342	473,655
Total non-current assets	<u>31,596,168</u>	<u>6,034,023</u>	<u>1,577,715</u>	<u>1,476,539</u>	<u>40,684,445</u>	<u>519,864</u>
Total assets	<u>32,114,729</u>	<u>12,477,905</u>	<u>2,206,364</u>	<u>1,717,221</u>	<u>48,516,219</u>	<u>675,078</u>
Liabilities						
Current Liabilities						
Cash overdraft	498,570	-	937,510	-	1,436,080	113,081
Accounts payable	541,367	542,718	77,653	14,769	1,176,507	145,383
Accrued salaries and wages	51,802	21,898	17,848	2,223	93,771	3,805
Accrued compensated absences	164,964	51,979	75,084	-	292,027	25,787
Accrued liabilities	14,074	13,810	11,347	-	39,231	265,943
Due to other funds	-	12,156	-	-	12,156	-
Notes payable	483,845	-	-	-	483,845	-
Bonds payable	8,000	-	-	-	8,000	-
Customer deposits	211,055	346,980	-	-	558,035	-
Accrued interest						
Bonds	15,965	-	-	-	15,965	-
Customer deposits	61,879	93,001	-	-	154,880	-
Total current liabilities	<u>2,051,521</u>	<u>1,082,542</u>	<u>1,119,442</u>	<u>16,992</u>	<u>4,270,497</u>	<u>553,999</u>
Non-Current Liabilities						
Accrued compensated absences	59,918	44,160	81,581	-	185,659	-
Notes payable	2,787,904	-	-	-	2,787,904	-
Bonds payable	460,000	-	-	-	460,000	-
Total non-current liabilities	<u>3,307,822</u>	<u>44,160</u>	<u>81,581</u>	<u>-</u>	<u>3,433,563</u>	<u>-</u>
Total liabilities	<u>5,359,343</u>	<u>1,126,702</u>	<u>1,201,023</u>	<u>16,992</u>	<u>7,704,060</u>	<u>553,999</u>
Net Position						
Net investment in capital assets	25,147,976	5,648,374	1,285,465	1,476,539	33,558,354	46,209
Restricted						
Employee benefit trust	-	-	-	-	-	473,655
Debt service	1,676,787	-	-	-	1,676,787	-
Renewal and replacement	775,000	-	-	-	775,000	-
Meter deposits	256,656	385,649	-	-	642,305	-
Landfill postclosure reserve	-	-	292,250	-	292,250	-
Unrestricted	(1,101,033)	5,317,180	(572,374)	223,690	3,867,463	(398,785)
Total net position	<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>

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, 2013

	Business-type Activities					Governmental Activities
	Water and Sewer	Gas	Sanitation	Stormwater	Totals	Service
Operating Revenues						
Charges for services	\$ 4,968,158	\$ 7,852,745	\$ 2,070,215	\$ 228,837	\$ 15,119,955	-
Interfund services provided	-	-	-	-	-	793,200
Tap-on fees	84,550	78,143	-	-	162,693	-
Miscellaneous revenues	301,359	63,031	25,368	154	389,912	-
Contributions to medical insurance fund	-	-	-	-	-	1,595,661
Total operating revenues	<u>5,354,067</u>	<u>7,993,919</u>	<u>2,095,583</u>	<u>228,991</u>	<u>15,672,560</u>	<u>2,388,861</u>
Operating expenses						
Water plant expenses	800,783	-	-	-	800,783	-
Sewer plant expenses	1,187,633	-	-	-	1,187,633	-
Water and sewer field operations	815,325	-	-	-	815,325	-
Engineering operations	294,534	275,573	-	-	570,107	-
General office operations	528,976	488,881	-	-	1,017,857	-
Administrative expenses	463,895	176,806	-	-	640,701	369,096
Other operating expenses	2,084	87,296	-	-	89,380	846,139
Depreciation	1,354,321	305,817	202,341	39,942	1,902,421	9,381
Gas purchased	-	5,453,152	-	-	5,453,152	-
Gas plant expenses	-	941,432	-	-	941,432	-
Transfer station and landfill expenses	-	-	2,067,435	-	2,067,435	-
Stormwater expenses	-	-	-	139,184	139,184	-
Medical claims paid	-	-	-	-	-	908,387
Total operating expenses	<u>5,447,551</u>	<u>7,728,957</u>	<u>2,269,776</u>	<u>179,126</u>	<u>15,625,410</u>	<u>2,133,003</u>
Operating income (loss)	<u>(93,484)</u>	<u>264,962</u>	<u>(174,193)</u>	<u>49,865</u>	<u>47,150</u>	<u>255,858</u>
Non-operating Revenues (Expenses)						
Interest and dividend income	31,868	84,630	4,304	2,554	123,356	1,678
Interest expense	(94,036)	(10,248)	-	-	(104,284)	-
Gain (loss) on sale of assets	16,100	200	10,950	-	27,250	(1,384)
Grant income	420,562	-	-	-	420,562	-
Total non-operating revenues (expenses)	<u>374,494</u>	<u>74,582</u>	<u>15,254</u>	<u>2,554</u>	<u>466,884</u>	<u>294</u>
Income (loss) before operating transfers	<u>281,010</u>	<u>339,544</u>	<u>(158,939)</u>	<u>52,419</u>	<u>514,034</u>	<u>256,152</u>
Operating Transfers						
From (to) other funds	(105,000)	(105,000)	(105,000)	-	(315,000)	-
Total operating transfers	<u>(105,000)</u>	<u>(105,000)</u>	<u>(105,000)</u>	<u>-</u>	<u>(315,000)</u>	<u>-</u>
Change in net position	176,010	234,544	(263,939)	52,419	199,034	256,152
Net position, beginning 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>
Net position, end 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>

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, 2013

	Business-type Activities				Totals	Governmental Activities
	Water and Sewer	Natural Gas	Sanitation	Stormwater		Internal Service
Cash Flows From Operating Activities						
Cash received from customers	\$ 5,347,197	\$ 7,908,051	\$ 2,058,881	\$ 228,356	\$ 15,542,485	\$ -
Cash paid to suppliers	(2,338,872)	(6,204,206)	(1,115,630)	(91,455)	(9,750,163)	(701,837)
Cash paid to employees	(1,387,214)	(902,485)	(626,144)	(39,315)	(2,955,158)	(129,744)
Cash received from interfund services provided	-	-	-	-	-	1,136,384
Cash paid for internal services used	(120,040)	(93,085)	(318,366)	(2,325)	(533,816)	-
Receipts of customer deposits	230	26,770	-	-	27,000	-
Net cash provided (used) by operating activities	<u>1,501,301</u>	<u>735,045</u>	<u>(1,259)</u>	<u>95,261</u>	<u>2,330,348</u>	<u>304,803</u>
Cash Flows From Noncapital Financing Activities						
Transfers to other funds	(105,000)	(105,000)	(105,000)	-	(315,000)	-
Non-operating state grant received	420,562	-	-	-	420,562	-
Net cash provided (used) by noncapital financing activities	<u>315,562</u>	<u>(105,000)</u>	<u>(105,000)</u>	<u>-</u>	<u>105,562</u>	<u>-</u>
Cash Flows From Capital And Related Financing Activities						
Proceeds from sale of capital assets	28,810	21,774	10,600	-	61,184	-
Acquisition and construction of capital assets	(2,464,751)	(329,441)	(377,133)	(40,268)	(3,211,593)	(2,059)
Proceeds from debt	1,062,992	-	-	-	1,062,992	-
Principal paid on capital debt	(437,051)	-	-	-	(437,051)	-
Interest paid on capital debt	(88,647)	-	-	-	(88,647)	-
Interest paid on customer deposits	(4,405)	(4,610)	-	-	(9,015)	-
Net cash used by capital and related financing activities	<u>(1,903,052)</u>	<u>(312,277)</u>	<u>(366,533)</u>	<u>(40,268)</u>	<u>(2,622,130)</u>	<u>(2,059)</u>
Cash Flows From Investing Activities						
Interest and dividends	31,868	84,630	4,304	2,554	123,356	1,678
Proceeds from sale or maturities of investments	-	675,000	-	-	675,000	102,500
Net cash provided by investing activities	<u>31,868</u>	<u>759,630</u>	<u>4,304</u>	<u>2,554</u>	<u>798,356</u>	<u>104,178</u>
Net Increase (decrease) in cash and cash equivalents	(54,321)	1,077,398	(468,488)	57,547	612,136	406,922
Cash and cash equivalents at beginning of year	<u>2,264,194</u>	<u>3,470,278</u>	<u>(469,022)</u>	<u>168,277</u>	<u>5,433,727</u>	<u>(46,348)</u>
Cash and cash equivalents at end 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 are included on the Statement of Net Position under the following captions:						
Cash and cash equivalents	(498,570)	4,162,027	(937,510)	225,824	2,951,771	(113,081)
Restricted assets	2,708,443	385,649	-	-	3,094,092	473,655
Total	<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>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	(93,484)	264,962	(174,193)	49,865	47,150	255,858
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation expense	1,354,321	305,817	202,341	39,942	1,902,421	9,381
(Increase)Decrease in certain assets:						
Receivables - Customers	(6,871)	(85,818)	(37,867)	(636)	(131,192)	-
Receivables - Other	-	(51)	-	-	(51)	(18,291)
Due from other funds	-	-	1,162	-	1,162	14,295
Inventory	(22,133)	15,665	-	-	(6,468)	(811)
Increase (Decrease) in certain liabilities:						
Accounts payable	228,755	151,631	-	4,634	385,020	39,739
Accrued expenses	40,483	43,913	-	1,456	85,852	4,632
Customer deposits	230	26,770	4,326	-	31,326	-
Due to other funds	-	12,156	2,972	-	15,128	-
Net cash provided (used) by operating activities	<u>\$ 1,501,301</u>	<u>\$ 735,045</u>	<u>\$ (1,259)</u>	<u>\$ 95,261</u>	<u>\$ 2,330,348</u>	<u>\$ 304,803</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF FIDUCIARY FUNDS NET POSITION
June 30, 2013

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	
	<u>Employee Retirement</u>	<u>Cemetery</u>	<u>Totals</u>
Assets			
Receivables	\$ -	\$ 2,330	\$ 2,330
Restricted assets			
Cash	4,887	41,297	46,184
Investments, at fair value	899,087	133,197	1,032,284
Total assets	<u>\$ 903,974</u>	<u>\$ 176,824</u>	<u>\$ 1,080,798</u>
Liabilities			
Accounts payable	\$ -	\$ 13,367	\$ 13,367
Total liabilities	<u>-</u>	<u>13,367</u>	<u>13,367</u>
Net Position			
Assets held in trust for pension benefits and other purposes	<u>903,974</u>	<u>163,457</u>	<u>1,067,431</u>
Total liabilities and net position	<u>\$ 903,974</u>	<u>\$ 176,824</u>	<u>\$ 1,080,798</u>

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

CITY OF MURRAY, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2013

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	<u>Totals</u>
	<u>Retirement</u>	<u>Cemetery</u>	
Additions			
Contributions	\$ 153,314	\$ -	\$ 153,314
Cemetery sales	-	48,775	48,775
Investment income			
Interest and dividends	29,288	6,966	36,254
Net (decrease) increase in fair value of investments	23,302	-	23,302
Gain (loss) on sale of assets	7,942	-	7,942
	<u>213,846</u>	<u>55,741</u>	<u>269,587</u>
Deductions			
Benefits	171,760	-	171,760
Administrative expenses	5,418	23,714	29,132
Repairs and maintenance	-	26,338	26,338
Total deductions	<u>177,178</u>	<u>50,052</u>	<u>227,230</u>
Changes in net position	36,668	5,689	42,357
Net position, beginning of the year	<u>867,306</u>	<u>157,768</u>	<u>1,025,074</u>
Net position, end of the year	<u>\$ 903,974</u>	<u>\$ 163,457</u>	<u>\$ 1,067,431</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, 2013

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. 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 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 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.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Internal Service Funds

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

Fiduciary 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 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 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.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 funds statements.

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

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

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

G. Due To and Due From Other Funds

Infund 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 fixed 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 Position.

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

Fixed assets acquired for proprietary funds are capitalized in the respective funds to which it applies.

Fixed assets are stated at cost. It is the City's policy to capitalize expenditures greater than or equal to \$500 with an estimated useful life greater than one year.

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 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, 2013, the City had no unamortized bond issue costs and discounts.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 specified 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.

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.

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 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 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 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.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 2013, none of the City's fund balances were classified as nonspendable.

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

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

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

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

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

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

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

N. Property Tax Revenue

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.

P. Impact of Recently Issued Accounting Pronouncements

In December 2010, the GASB issued Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the City's financial statements.

In June 2011, the GASB issued Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB 63 provides guidance for reporting deferred outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all the other elements presented in the statement of net position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of June 30, 2013, the City had no items that met the definition of deferred outflows or deferred inflows of resources based on the adoption of GASB 63.

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. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements, but has not implemented its effects on items currently reported as deferred assets or liabilities in the financial statements presented herein.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 \$45,784 exists in the Central Garage Fund resulting from excess expenditures incurred. 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”.

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.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash and cash equivalents	\$ 5,627,641	\$ 6,350,261
Certificates of deposit	2,250,000	2,250,000
Restricted cash and C.D.'s	4,500,063	3,792,470
Total deposits	<u>\$ 12,377,704</u>	<u>\$ 12,392,731</u>
Insured (FDIC)	\$ 804,892	\$ 804,892
Uninsured; Collateral held by pledging bank's trust department in City's name	11,572,812	11,587,839
Total Deposits	<u>\$ 12,377,704</u>	<u>\$ 12,392,731</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Reconciliation to Government-wide Statement
of Net Assets:

Unrestricted cash, including time deposits	\$ 7,877,641
Restricted cash, including time deposits	4,500,063
Fiduciary fund restricted cash (not included in government-wide statements)	46,184
	<u>\$ 12,423,888</u>

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 \$899,086 and \$76,450, respectively, at June 30, 2013 and are summarized below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>Moody's Rating</u>
FNMA	\$ 76,589	7.9%	Aaa
FHLMC	104,045	10.7%	Aaa
Goldman Sachs	55,942	5.7%	A2
DuPont	50,074	5.1%	A2
Merrill Lynch	27,070	2.8%	A3
IBM	51,291	5.3%	Aa3
HSBC	27,464	2.8%	A3
Verizon	77,516	7.9%	A3
Walmart	50,985	5.2%	Aa2
Common Stock	333,749	34.2%	Unrated
Mutual Funds	120,811	12.4%	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, 2013, 100% of the City's investments in U.S. obligations and corporate bonds were rated Aaa to A3.

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, 2013, the City's concentration of credit risk consisted of 10.7% invested in Federal Home Loan Mortgage Corporation bonds, 7.9% in Federal National Mortgage Association bonds, 7.9% in Verizon corporate bonds, 5.7% in Goldman Sachs corporate bonds, 5.3% in International Business Systems corporate bonds, 5.2% in Walmart corporate bonds, and 5.1% in DuPont corporate bonds.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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:

Property assessment date – January 1
Levy date – September 30
Due date – October 31

Property taxes receivable as of June 30, 2013, are composed of the following:

<u>Year of Levy</u>	<u>General Fund</u>
2012	350,531
2011	41,836
2010	34,292
2009	26,568
2008	20,387
2007	13,996
2006 and prior	38,489
Total property taxes receivable	526,099
Less allowance for uncollectibles	(80,180)
Net Property Taxes Receivable	<u>\$ 445,919</u>

D. Interfund Transactions

As of June 30, 2013, interfund receivables and payables that resulted from various interfund transactions for operating expenses were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
Governmental Fund General Fund	\$ 12,156	\$ -
Proprietary Funds: Natural Gas	-	12,156
Total	<u>\$ 12,156</u>	<u>\$ 12,156</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	\$ 217,060
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	577,940

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

E. Property, Plant, and Equipment

	Balance			Balance
	June 30, 2012	Additions	Disposals	June 30, 2013
Governmental Activities				
Buildings	\$ 1,233,280	\$ -	\$ -	\$ 1,233,280
Land	344,589	100,000	-	444,589
Machinery & equipment	2,992,840	954,480	(769,809)	3,177,511
Infrastructure	8,051,700	523,743	-	8,575,443
Totals at historical cost	<u>12,622,409</u>	<u>1,578,223</u>	<u>(769,809)</u>	<u>13,430,823</u>
Less accumulated depreciation:				
Buildings	(723,097)	(30,757)	-	(753,854)
Machinery & equipment	(3,357,482)	(245,483)	530,307	(3,072,658)
Infrastructure	(1,349,345)	(269,265)	-	(1,618,610)
Total accumulated depreciation	<u>(5,429,924)</u>	<u>(545,505)</u>	<u>530,307</u>	<u>(5,445,122)</u>
Governmental activities capital assets, net	<u>\$ 7,192,485</u>	<u>\$ 1,032,718</u>	<u>\$ (239,502)</u>	<u>\$ 7,985,701</u>

Depreciation was charged to functions as follows:

Governmental Activities	
General Government	\$ 27,238
Police Department	110,462
Fire Department	73,490
Street Department	334,315
Total Governmental Activities Depreciation Expense	<u>\$ 545,505</u>

	Balance			Balance
	June 30, 2012	Additions	Disposals	June 30, 2013
Business-type Activities				
Land	\$ 1,385,144	\$ -	\$ -	\$ 1,385,144
Buildings	2,424,115	35,401	(114,032)	2,345,484
Machinery and equipment	8,194,894	748,568	(298,467)	8,644,995
Drainage improvement	1,559,009	40,269	-	1,599,278
Utility plant	58,285,839	2,262,908	(72,502)	60,476,245
Totals at historical cost	<u>71,849,001</u>	<u>3,087,146</u>	<u>(485,001)</u>	<u>74,451,146</u>
Less accumulated depreciation				
Buildings	(1,404,233)	(78,415)	106,133	(1,376,515)
Machinery and equipment	(6,253,874)	(429,794)	297,982	(6,385,686)
Drainage improvement	(86,521)	(38,995)	-	(125,516)
Utility plant	(27,956,362)	(1,355,217)	46,253	(29,265,326)
Total accumulated depreciation	<u>(35,700,990)</u>	<u>(1,902,421)</u>	<u>450,368</u>	<u>(37,153,043)</u>
Business-type activities capital assets, net	<u>\$ 36,148,011</u>	<u>\$ 1,184,725</u>	<u>\$ (34,633)</u>	<u>\$ 37,298,103</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 the 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 laws and regulations. Restricted assets at June 30, 2013 are as follows:

	<u>Cost</u>	<u>Market</u>
<u>Governmental Activities</u>		
General Fund - CDBG Housing	\$ 54,892	\$ 54,892
Special Revenue Funds	520,622	520,622
Employee Benefits	473,655	473,655
Total Governmental Activities	<u>1,049,169</u>	<u>1,049,169</u>
<u>Business-type Activities</u>		
Water and Sewer - Meter deposits	256,656	256,656
Bond and interest reserve	1,676,787	1,676,787
Renewal and replacement	775,000	775,000
Natural Gas - Meter Deposits	385,649	385,649
Sanitation - Landfill Postclosure Reserve	292,250	292,250
Total Business-type Activities	<u>3,386,342</u>	<u>3,386,342</u>
Total Restricted Assets	<u>\$ 4,435,511</u>	<u>\$ 4,435,511</u>

G. Retirement Plants, 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, 2013, was \$6,558,469. The City's total payroll was \$7,306,387.

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.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 37.60% of covered payroll. The contribution requirement for the year ended June 30, 2013 was \$1,173,658, which consisted of \$965,060 from the City and \$208,598 from employees.

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 original fund, which had net plan assets with a market value of \$899,087 as of June 30, 2013.

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 19.55% 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, 2013, was \$933,957, which consisted of \$740,532 from the City and \$193,425 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>
6/30/13	\$ 1,705,592	100%
6/30/12	1,586,649	100%
6/30/11	1,369,371	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, 2013:

	<u>Balance June 30, 2012</u>	<u>New Debt</u>	<u>Repayments</u>	<u>Balance June 30, 2013</u>
Business-type Activities -				
KADD	\$ 970,000	\$ -	\$ 70,000	\$ 900,000
RLF	608,983	-	301,613	307,370
KIA	1,058,825	-	57,438	1,001,387
KIA 12-12	-	1,062,992	-	1,062,992
	<u>2,637,808</u>	<u>1,062,992</u>	<u>429,051</u>	<u>3,271,749</u>

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

	<u>Balance</u> <u>June 30, 2012</u>	<u>New</u> <u>Debt</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental Activities -				
US Bank	262,629	-	32,093	230,536
BB&T - Fire Truck	-	457,008	20,615	436,393
BB&T - Police Vehicles	-	393,000	75,112	317,888
	<u>262,629</u>	<u>850,008</u>	<u>127,820</u>	<u>984,817</u>
 Totals	 <u>\$ 2,900,437</u>	 <u>\$ 1,913,000</u>	 <u>\$ 556,871</u>	 <u>\$ 4,256,566</u>

Notes payable at June 30, 2013 are summarized, as follows:

Water and Sewer

Kentucky Area Development Districts Financing Trust (due in scheduled maturities through May 20, 2023 at 1.5% to 4.7%)	\$ 900,000
Kentucky Infrastructure Authority Revolving Loan Fund - (due in scheduled maturities through 2014 at 1.9%)	307,370
Kentucky Infrastructure Authority Revolving Loan Fund - (due in scheduled maturities commencing on December 1, 2009 and continuing through June 1, 2029 at 1%)	1,001,387
Kentucky Infrastructure Authority Revolving Loan Fund - (due in scheduled maturities through 2033 at 1%)	1,062,992
	<u>\$ 3,271,749</u>

General Fund

US Bank Term Loan (due in scheduled maturities through November 1, 2019)	\$ 230,536
BB&T Notes Payable (due in scheduled maturities through January 13, 2023)	436,393
BB&T Notes Payable (due in scheduled maturities through November 29, 2015)	317,888
	<u>\$ 984,817</u>

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

CITY OF MURRAY, KENTUCKY
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June 30, 2013

<u>Year Ending</u>	<u>Murray Water and Sewer System</u>	<u>General Fund</u>	<u>Total</u>
2014	\$ 483,845	\$ 202,977	\$ 686,822
2015	176,657	210,700	387,357
2016	182,676	136,706	319,382
2017	188,706	83,703	272,409
2018	189,745	86,382	276,127
Thereafter	<u>2,050,120</u>	<u>264,349</u>	<u>2,314,469</u>
Total	<u>\$ 3,271,749</u>	<u>\$ 984,817</u>	<u>\$ 4,256,566</u>

The following is a summary of the City's bonds payable transactions for the year ended June 30, 2013:

	<u>June 30, 2012</u>	<u>Debt</u>	<u>Repayments</u>	<u>Retirement</u>	<u>June 30, 2013</u>
Business-type Activities - 2001 Revenue Bonds	<u>\$ 476,000</u>	<u>\$ -</u>	<u>\$ 8,000</u>	<u>\$ -</u>	<u>\$ 468,000</u>

Bonds payable at June 30, 2013 are as follows:

	<u>Water and Sewer System</u>
2001 Revenue Bonds - (due in scheduled maturities through January 1, 2041 at 4.75%)	<u>\$ 468,000</u>

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

<u>Year Ending</u>	<u>2001 Bond Issue</u>
2014	\$ 8,000
2015	8,000
2016	9,000
2017	9,000
2018	10,000
Thereafter	424,000
Total	<u>\$ 468,000</u>

The annual debt service requirements to maturity, including principal and interest, for all long-term debt as of June 30, 2013, are as follows:

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

<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>
2014	\$ 202,977	\$ 19,848	\$ 491,845	\$ 88,311
2015	210,700	16,337	184,657	79,933
2016	136,706	12,210	191,676	75,566
2017	83,703	5,662	197,706	70,631
2018	86,382	6,707	199,745	65,474
2019-2023	264,349	7,253	1,095,689	239,609
2024-2028	-	-	639,289	121,252
2029-2033	-	-	536,142	75,609
2034-2038	-	-	118,000	37,430
2039-2043	-	-	85,000	8,218
Total	<u>\$ 984,817</u>	<u>\$ 68,017</u>	<u>\$ 3,739,749</u>	<u>\$ 862,033</u>

I. Conduit Debt Obligations

As of June 30, 2013, the City of Murray had the following bond issues outstanding related to the acquisition and construction of facilities:

Murray State University Wellness & Recreation	\$ 9,075,000
Murray Calloway County Hospital	<u>15,000,000</u>
Total principal amounts payable	<u>\$24,075,000</u>

J. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. To obtain insurance of these risks, the City participates in the Kentucky League of Cities Insurance Services (KLCIS). These public entity risk pools operate as common risk managements and insurance programs for participating cities and other governmental entities in Kentucky. The City pays an annual premium to each fund for coverage.

City employees are provided traditional health care insurance that covers hospitalization and major medical expenses within specified limits. The plan is self-funded by the City and administered by a third-party administrator. The City pays the administrator a fee for various claim administration services. The City pays all claims after the third-party administrator who in turn issues individual claim checks. The City carries stop-loss insurance against catastrophic losses. The premiums for these policies are billed by the third-party administrator to the City. The claims liability reported in the Medical Insurance Fund at June 30, 2013 was estimated using information provided by the third-party administrators.

CITY OF MURRAY, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 2013, 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.

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, 2013

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
Revenues				
Property taxes	\$ 3,571,000	\$ 3,571,000	\$ 3,611,342	\$ 40,342
Insurance tax	1,600,000	1,600,000	1,976,326	376,326
Vehicle license tax	810,000	810,000	794,849	(15,151)
Franchise taxes	245,000	245,000	254,313	9,313
Occupational business licenses	400,000	400,000	268,586	(131,414)
Payments in lieu of taxes	7,500	7,500	16,455	8,955
Bank shares	96,500	96,500	111,164	14,664
Licenses and permits	33,100	33,100	66,437	33,337
Fines and fees	73,000	73,000	18,126	(54,874)
Intergovernmental revenue	37,000	37,000	23,975	(13,025)
Interest	45,000	45,000	33,719	(11,281)
Miscellaneous income	53,500	53,500	441,965	388,465
Grant funds received	3,682,700	4,951,858	727,342	(4,224,516)
Transient room tax	195,000	195,000	217,060	22,060
Total revenues	<u>10,849,300</u>	<u>12,118,458</u>	<u>8,561,659</u>	<u>(3,556,799)</u>
Expenditures				
General government	4,560,175	5,683,175	1,535,212	4,147,963
Police department	2,858,300	3,137,240	3,320,740	(183,500)
Fire department	2,744,150	2,744,150	3,146,772	(402,622)
Animal control	25,000	25,000	4,167	20,833
Street department	678,530	678,530	675,785	2,745
Planning and zoning	332,800	332,800	296,715	36,085
Debt service				
Principal	-	-	109,042	(109,042)
Interest	-	-	18,487	(18,487)
Total expenditures	<u>11,198,955</u>	<u>12,600,895</u>	<u>9,106,920</u>	<u>3,493,975</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(349,655)</u>	<u>(482,437)</u>	<u>(545,261)</u>	<u>(62,824)</u>
Other Financing Sources (Uses)				
Transfers from other funds	545,000	1,022,940	992,940	30,000
Transfers to other funds	(195,000)	(195,000)	(217,060)	(22,060)
Proceeds from debt	-	-	850,008	850,008
Total other financing sources (uses)	<u>350,000</u>	<u>827,940</u>	<u>1,625,888</u>	<u>857,948</u>
Net Change in Fund Balance	345	345,503	1,080,627	795,124
Fund balance, beginning of year	<u>1,500,000</u>	<u>1,011,300</u>	<u>1,646,898</u>	<u>635,598</u>
Fund balance, end of year	<u>\$ 1,017,275</u>	<u>\$ 1,356,803</u>	<u>\$ 2,727,525</u>	<u>\$ 1,430,722</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, 2013

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
6/30/2010	\$7,296,321	\$ 11,131,175	\$ 3,834,854	65.5%	\$2,703,404	141.9%
6/30/2011	7,409,155	11,777,126	4,367,971	62.9%	2,743,560	159.2%
6/30/2012	7,294,615	12,149,560	4,854,945	60.0%	2,700,775	179.8%

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 for the vested benefits of the City's portion of the plan assets.

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION SECTION

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

June 30, 2013

	Street Paving	E-911	Murray Convention and Visitors Bureau	Drug Court Awards Fund	LGEA	Alcoholic Beverage Control	Totals
Assets							
Cash	\$ -	\$ -	\$ 100,073	\$ -	\$ -	\$ -	\$ 100,073
Accounts receivable	-	-	17,882	-	-	236,494	254,376
Due from other funds	-	-	64,551	-	-	-	64,551
Restricted assets	337,152	92,563	-	43,873	6,658	40,376	520,622
Total assets	\$ 337,152	\$ 92,563	\$ 182,506	\$ 43,873	\$ 6,658	\$ 276,870	\$ 939,622
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 21,196	\$ 4,820	\$ -	\$ -	\$ -	\$ 1,590	\$ 27,606
Accrued wages	-	-	3,234	-	-	-	3,234
Due to other funds	-	-	-	-	-	256,470	256,470
Total liabilities	21,196	4,820	3,234	-	-	258,060	287,310
Fund Balances							
Restricted	315,956	87,743	179,272	43,873	6,658	40,376	673,878
Assigned	-	-	-	-	-	(21,566)	(21,566)
Total fund balance	315,956	87,743	179,272	43,873	6,658	18,810	652,312
Total liabilities and fund balances	\$ 337,152	\$ 92,563	\$ 182,506	\$ 43,873	\$ 6,658	\$ 276,870	\$ 939,622

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, 2013

	Street Paving	E-911	Murray Convention and Visitors Bureau	Drug Court Awards Fund	LGEA	Alcoholic Beverage Control	Totals
Revenues							
Intergovernmental revenue	\$ 387,103	-	-	-	-	\$ -	\$ 387,103
Interest earned	4,491	1,447	72	17	74	1,792	7,893
Telephone line charges	-	215,161	-	-	-	-	215,161
Other	-	-	78,972	-	1,906	573,987	654,865
Court awards	-	-	-	27,198	-	-	27,198
Total revenues	<u>391,594</u>	<u>216,608</u>	<u>79,044</u>	<u>27,215</u>	<u>1,980</u>	<u>575,779</u>	<u>1,292,220</u>
Expenditures							
Street department	209,031	-	-	-	-	-	209,031
E-911	-	77,816	-	-	-	-	77,816
Tourism commission	-	-	231,290	-	-	-	231,290
Freedom fest	-	-	56,514	-	-	-	56,514
Drug court awards	-	-	-	15,646	-	-	15,646
Alcoholic beverage control	-	-	-	-	-	69,471	69,471
Debt Service	-	-	-	-	-	18,778	18,778
Principal	-	-	-	-	-	472	472
Interest	-	-	-	-	-	88,721	88,721
Total expenditures	<u>209,031</u>	<u>77,816</u>	<u>287,804</u>	<u>15,646</u>	<u>-</u>	<u>88,721</u>	<u>679,018</u>
Excess (deficiency) of revenues over expenditures	182,563	138,792	(208,760)	11,569	1,980	487,058	613,202
Other Financing Sources (Uses)							
Transfers from other funds	-	-	217,060	-	-	-	217,060
Transfersto from other funds	-	(100,000)	-	-	-	(577,940)	(677,940)
Total other financing sources (uses)	-	<u>(100,000)</u>	<u>217,060</u>	-	-	<u>(577,940)</u>	<u>(460,880)</u>
Net change in fund balance	182,563	38,792	8,300	11,569	1,980	(90,882)	152,322
Fund balance, beginning of year	133,393	48,951	170,972	32,304	4,678	109,692	499,990
Fund balance, end of year	\$ 315,956	\$ 87,743	\$ 179,272	\$ 43,873	\$ 6,658	\$ 18,810	\$ 652,312

See Independent Auditor's Report.

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

June 30, 2013

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Current Assets			
Investments, at fair value	\$ -	\$ 76,450	\$ 76,450
Accounts receivable	23,858	-	23,858
Materials and supplies, at average cost	54,906	-	54,906
Total current assets	<u>78,764</u>	<u>76,450</u>	<u>155,214</u>
Non-Current Assets			
Buildings	225,000	-	225,000
Machinery and equipment	116,602	-	116,602
Accumulated depreciation	(295,393)	-	(295,393)
Restricted assets	-	473,655	473,655
Total non-current assets	<u>46,209</u>	<u>473,655</u>	<u>519,864</u>
Total assets	<u>124,973</u>	<u>550,105</u>	<u>675,078</u>
Liabilities			
Current Liabilities			
Cash overdraft	113,081	-	113,081
Accounts payable	28,084	117,299	145,383
Accrued salaries	3,805	-	3,805
Accrued compensated absences	25,787	-	25,787
Accrued claims incurred but not reported	-	265,943	265,943
Total current liabilities	<u>170,757</u>	<u>383,242</u>	<u>553,999</u>
Net Position			
Investment in capital assets	46,209	-	46,209
Restricted	-	473,655	473,655
Unrestricted	(91,993)	(306,792)	(398,785)
Total net position	<u>\$ (45,784)</u>	<u>\$ 166,863</u>	<u>\$ 121,079</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, 2013

	<u>Central Garage</u>	<u>Medical Insurance Fund</u>	<u>Totals</u>
Operating Revenues			
Charges for interfund services	\$ 793,200	\$ -	\$ 793,200
Contributions to fund	-	1,595,661	1,595,661
Total operating revenues	<u>793,200</u>	<u>1,595,661</u>	<u>2,388,861</u>
Operating Expenses			
Depreciation	9,381	-	9,381
Parts rebilled	172,233	-	172,233
Petroleum products rebilled	456,357	-	456,357
Other garage expenses	217,549	-	217,549
Claims paid	-	908,387	908,387
Administrative costs	-	353,564	353,564
Wellness incentives	-	15,532	15,532
Total operating expenses	<u>855,520</u>	<u>1,277,483</u>	<u>2,133,003</u>
Operating income (loss)	<u>(62,320)</u>	<u>318,178</u>	<u>255,858</u>
Non-Operating Revenues (Expenses)			
Interest and dividend income (expenses)	(1,065)	2,743	1,678
Gain (loss) on sale of investments	-	(1,384)	(1,384)
Total non-operating revenues (expenses)	<u>(1,065)</u>	<u>1,359</u>	<u>294</u>
Change in net position	(63,385)	319,537	256,152
Net position - beginning of year	<u>17,601</u>	<u>(152,674)</u>	<u>(135,073)</u>
Net position - end of year	<u>\$ (45,784)</u>	<u>\$ 166,863</u>	<u>\$ 121,079</u>

See Independent Auditor's Report.

CITY OF MURRAY, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2013

	Central Garage	Medical Insurance Fund	Totals
Cash Flows from Operating Activities			
Cash paid to suppliers	\$ (701,837)	\$ -	\$ (701,837)
Cash paid to employees	(129,744)	-	(129,744)
Cash received for premiums	-	1,595,661	1,595,661
Cash paid for claims	-	(1,248,481)	(1,248,481)
Cash received from interfund services provided	789,204	-	789,204
Net cash provided (used) by operating activities	<u>(42,377)</u>	<u>347,180</u>	<u>304,803</u>
Cash Flows From Capital and Related Financing Activities			
Purchases of capital assets	<u>(2,059)</u>	<u>-</u>	<u>(2,059)</u>
Cash Flows From Investing Activities			
Interest and dividends	(1,065)	2,743	1,678
Proceeds from sale or maturities of investments	-	102,500	102,500
Net cash provided (used) by investing activities	<u>(1,065)</u>	<u>105,243</u>	<u>104,178</u>
Net increase (decrease) in cash and cash equivalents	(45,501)	452,423	406,922
Cash and cash equivalents at beginning of year	<u>(67,580)</u>	<u>21,232</u>	<u>(46,348)</u>
Cash and cash equivalents at end of year	<u>\$ (113,081)</u>	<u>\$ 473,655</u>	<u>\$ 360,574</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (62,320)	\$ 318,178	\$ 255,858
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	9,381	-	9,381
(Increase) Decrease in certain assets:			
Accounts receivable	(18,291)	-	(18,291)
Due from other funds	14,295	-	14,295
Materials and supplies	(811)	-	(811)
Increase (Decrease) in certain liabilities:			
Accounts payable	12,704	27,035	39,739
Accrued expenses	2,665	1,967	4,632
Net cash provided (used) by operating activities	<u>\$ (42,377)</u>	<u>\$ 347,180</u>	<u>\$ 304,803</u>

See Independent Auditor's Report

CITY OF MURRAY, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

<u>Federal Grantor / Pass-Through Grantor/CFDA Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
U.S. Department of Transportation			
Passed Through Kentucky Transportation Cabinet:			
Highway Planning and Construction	20.205	\$ 139,471	\$ 139,471
Highway Planning and Construction TE/STP	20.205	9,687	9,687
		<u>149,158</u>	<u>149,158</u>
Federal Transit - Capital Investment Grants	20.500	<u>195,282</u>	<u>195,282</u>
State and Community Highway Safety	20.600	<u>9,732</u>	<u>9,732</u>
Total U.S. Department of Transportation		<u>354,172</u>	<u>354,172</u>
U.S. Environmental Protection Agency			
Revolving Loan Program with Kentucky Infrastructure Authority			
Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>46,000,000</u>	<u>1,046,152</u>
Total federal awards		<u>\$ 46,354,172</u>	<u>\$ 1,400,324</u>

See Independent Auditor's Report.

CITY OF MURRAY, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Murray, Kentucky, under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the City of Murray, Kentucky, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Murray, Kentucky.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

INTERNAL CONTROL AND COMPLIANCE SECTION

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**Independent Auditor's Report 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
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, 2013, and the related notes to the financial statements, which collectively comprise the City of Murray, Kentucky's basic financial statements, and have issued our report thereon dated January 21, 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, Kentucky's Response to Findings

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

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Murray, Kentucky
January 21, 2014

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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, 2013. 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, 2013.

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 items 2012-002, that we consider to be a significant deficiency.

The City of Murray, Kentucky'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 of Murray, Kentucky'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
January 21, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unqualified

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

Noncompliance material to financial statements noted? yes x no

Federal Awards

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

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

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
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

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

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

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 year end 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 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 year end 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

CITY OF MURRAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

CITY OF MURRAY, KENTUCKY
SUMMARY SCHEDULE OF PRIOR FINDINGS
June 30, 2013

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. See finding 2012-001.

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. See finding 2012-002.