

City of Oak Grove, Kentucky

Financial Statements

June 30, 2012

City of Oak Grove, Kentucky
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Oak Grove, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Oak Grove, Kentucky, (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the City of Oak Grove Recreational, Tourist and Convention Commission ("the Tourism Commission"), which represent all of the respective assets, net assets and revenue of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Tourism Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of the laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 8 and 42 through 43 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 of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in blue ink that reads "Borland Benefield P.C.".

Borland Benefield, P.C.
Birmingham, Alabama
February 25, 2014

City of Oak Grove, Kentucky
Management's Discussion and Analysis
June 30, 2012

The financial management of the City of Oak Grove, Kentucky (Oak Grove) offers readers of Oak Grove's financial statements this narrative overview and analysis of the financial activities of the City of Oak Grove for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with other information furnished in financial report of the City of Oak Grove.

Financial Highlights

- The assets of Oak Grove exceeded its liabilities at the close of the June 30, 2012 fiscal year by \$9,471,682 (net assets.) Of this amount, \$1,461,281 was unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.
- The government's total net assets decreased in fiscal year 2012 by \$247,974 or 3% from the previous year.
- As of the close of the current fiscal year, Oak Grove's governmental funds reported combined ending fund balances of \$2,452,105. Of this amount, an amount of \$1,945,189 is available for spending at the government's discretion (unassigned fund balance.) This is approximately 39% of total General Fund annual expenditures.
- Oak Grove's total liabilities at the close of the fiscal year June 30, 2012, were \$12,763,410, a decrease of \$1,193,783 (9%) from the previous fiscal year. This decrease reflects a pay down of debt related to bonds, notes and capital leases.

Overview of the Financial Statements

This management's discussion and analysis is intended to serve as an introduction to Oak Grove's basic financial statements. Oak Grove's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

In addition, the financial statements present a component unit of Oak Grove, the City of Oak Grove Tourism and Convention Commission (the Tourism Commission.) Separate financial statements for the Tourism Commission may be obtained by writing to the Tourism Commission at P.O. Box 756, Oak Grove, Kentucky 42262.

Government-wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of Oak Grove's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of Oak Grove's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Oak Grove is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of Oak Grove that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities.) Oak Grove's governmental activities include general government, protection to persons and property, roads, recreation, and social services. Oak Grove has two business-type activities – water and sewer funds.

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Management's Discussion and Analysis
June 30, 2012

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Oak Grove, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Oak Grove can be divided into two broad categories: governmental funds and proprietary funds.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Oak Grove maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Municipal Road Aid Fund, both of which are considered major funds of Oak Grove.

Oak Grove adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds: Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Departments, which are considered to be major funds of Oak Grove.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis: As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

The following is a summary of the net assets of the City of Oak Grove and its component unit, the City of Oak Grove Tourism and Convention Commission.

City of Oak Grove, Kentucky
Management's Discussion and Analysis
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City of Oak Grove's Net Assets

	Primary Government		Component Unit	
	2012	2011	2012	2011
Assets				
Current and other assets	\$ 13,226,776	\$ 15,477,707	\$ 237,755	\$ 1,552,490
Capital assets	9,008,316	8,199,142	9,953,704	8,899,578
Total assets	22,235,092	23,676,849	10,191,459	10,452,068
Liabilities				
Current and other liabilities	1,600,505	1,965,989	228,575	218,243
Long-term liabilities	11,162,905	11,991,204	5,871,774	6,095,115
Total liabilities	12,763,410	13,957,193	6,100,349	6,313,358
Net Assets				
Invested in capital assets, net of related debt	6,687,947	4,904,347	3,858,590	2,590,525
Restricted	1,322,454	1,519,883	28,490	861,374
Unrestricted	1,461,281	3,295,426	204,030	686,811
Total net assets	\$ 9,471,682	\$ 9,719,656	\$ 4,091,110	\$ 4,138,710

Changes in Net Assets: Grove's net assets decreased by \$247,974 in fiscal year 2012. Key elements of this decrease are as follows:

- Total revenues were \$5,476,540, a decrease of 16% from the prior year. Of this, program revenues represent 35% of total revenues. Major sources of program revenues included operating grants and contributions and charges for services. General revenues represent the remaining 65% of total revenues. Major sources of general revenues include occupational and license taxes, property taxes and restaurant taxes.
- Expenditures totaled \$5,724,514, a decrease of 18% from the previous year. Of this, the major functions include public safety, public utilities, and general government expenditures. Together they comprise 88% of the total program expenditures.

The following is a summary of the changes in nets assets of the City of Oak Grove and its component unit the City of Oak Grove Tourism and Convention Commission:

City of Oak Grove, Kentucky
Management's Discussion and Analysis
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City of Oak Grove's Changes in Net Assets

	Primary Government		Component Unit	
	2012	2011	2012	2011
Revenues				
Program revenues				
Charges for services	\$ 1,661,627	\$ 2,075,685	\$ 76,322	\$ 1,040
Grants and contributions	228,325	248,659	4,120	8,716
General revenues				
Taxes	2,778,279	3,467,312	1,042,741	856,054
Investment earnings	48,765	52,898	9,383	61,471
Other	759,544	651,930	-	50
Total revenues	<u>5,476,540</u>	<u>6,496,484</u>	<u>1,132,566</u>	<u>927,331</u>
Expenses				
General government	909,664	668,867	-	-
Public safety	2,173,984	2,151,761	-	-
Public works	353,640	397,676	-	-
Parks and recreation	274,341	335,257	-	-
Tourism	-	856,054	1,167,223	837,338
Business-type activities	1,942,402	2,447,145	-	-
Interest	70,483	89,495	12,943	5,995
Total expnese	<u>5,724,514</u>	<u>6,946,255</u>	<u>1,180,166</u>	<u>843,333</u>
Change in net assets	(247,974)	(449,771)	(47,600)	83,998
Net assets - beginning of year	<u>9,719,656</u>	<u>10,169,427</u>	<u>4,138,710</u>	<u>4,054,713</u>
Net assets - end of year	<u>\$ 9,471,682</u>	<u>\$ 9,719,656</u>	<u>\$ 4,091,110</u>	<u>\$ 4,138,711</u>

Financial Analysis of the City of Oak Grove's Funds

As noted earlier, Oak Grove uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview: The focus of Oak Grove's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Oak Grove's financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

City of Oak Grove, Kentucky
Management's Discussion and Analysis
June 30, 2012

As of the end of the June 30, 2012 fiscal year, the combined ending fund balances of Oak Grove's governmental funds totaled \$2,452,105. The unassigned fund balance was \$1,945,189, which is intended for availability as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of the fund balance, \$506,916, is either not in spendable form or is restricted to indicate that it is not available for new spending.

Oak Grove has two major governmental funds. These are 1) the General Fund and 2) the Municipal Road Aid Fund.

1. The General Fund is the primary operating fund of Oak Grove. At the end of the June 30, 2012 fiscal year, unassigned fund balance of the General Fund was \$1,945,189, while the General Fund total fund balances were \$2,400,728. The General Fund balance decreased \$756,410 from the prior year.
2. The Municipal Road Aid Fund is used to manage and control restricted funding for city streets and road construction and maintenance projects. The Municipal Road Aid Fund had a fund balance of \$51,377 at June 30, 2012. The fund balance decreased by \$312,357 from the prior year balance of \$363,734.

Proprietary Funds Overview: Oak Grove's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail. Oak Grove has two proprietary funds, the Water Fund and the Sewer Fund.

Total revenues in the proprietary funds were \$1,984,045, a decrease of 7% from the prior year. Of this, customer charges represented 74% of total revenues. Charges for services are the major source of program revenue. General revenues represented 23% of total revenues.

Expenses totaled \$1,942,402, a decrease of 21% from the previous year. The Sewer department made a large transfer of \$628,195 to the general fund related to the sale of the sewer system and detailed in Note 17.

The Water Fund's unrestricted net assets at the end of the June 30, 2012 fiscal year amounted to \$ (183,648). The decrease in unrestricted net assets from the previous year was \$37,857. The Sewer Fund had unrestricted net assets of \$303,998 at the close of the June 30, 2012 fiscal year. The decrease in unrestricted net assets was \$658,299. These decreases are partially due to the transfer of funds to the general fund.

Capital Assets and Debt Administration

Capital Assets: Oak Grove's investment in capital assets for its government and business-type activities as of June 30, 2012 totaled \$9,008,316 (net of accumulated depreciation.) This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and infrastructure. Oak Grove has elected to report infrastructure assets prospectively per GASB No. 34 provisions. The City's investment in capital assets as of June 30, 2012, was as follows:

City of Oak Grove, Kentucky
Management's Discussion and Analysis
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	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Governmental Activities:		
Land	\$ 1,326,836	\$ 721,836
Construction in progress	538,731	16,796
Buildings	2,193,200	2,216,468
Infrastructure	1,605,693	1,492,478
Machinery and equipment	691,870	823,079
Vehicles	216,703	359,316
Totals	<u>\$ 6,573,033</u>	<u>\$ 5,629,973</u>

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Business-type Activities:		
Land	\$ 90,170	\$ 90,170
Buildings	25,616	28,422
Infrastructure	2,230,566	2,372,696
Machinery and equipment	83,100	62,311
Vehicles	5,831	15,570
Totals	<u>\$ 2,435,283</u>	<u>\$ 2,569,169</u>

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Component Unit:		
Land	\$ 1,632,859	\$ 1,632,859
Construction in process	-	3,915,819
Buildings	8,085,213	3,254,438
Machinery and equipment	235,632	96,462
Totals	<u>\$ 9,953,704</u>	<u>\$ 8,899,578</u>

Additional information on Oak Grove's capital assets can be found in Note 9 of this report.

Long Term Debt: At the end of the 2012 fiscal year, Oak Grove had total debt outstanding of \$11,981,913. Of this amount, \$3,643,230 represents bonded debt. Additional information regarding these debt obligations can be found in Note 11 to the basic financial statements.

General Fund Budgetary Highlights

Over the course of the year, Oak Grove's governing body passed an original budget and a revised or amended budget. The main focus of the amendment was to more closely match the appropriations available for revenues and expenditures.

Actual revenues of the general government fell short of budgeted revenues for the year by \$1,262,876 while actual expenditures exceeded budgeted expenditures by \$1,268,565. The excess of expenditures over revenues

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for the year was absorbed by transferring funds from Oak Grove's proprietary funds and reducing the General Fund balance. Oak Grove officials are aware more work is needed in the budgeting process and will dedicate more resources moving forward to produce a more accurate budget in an effort to ensure expenditures do not exceed revenues to mitigate using fund balance as a measure to finance operations.

Other Matters

The following factors are expected to have a significant effect on Oak Grove's financial position or results of operations and were taken into account in developing the next year's budget.

- The 2013 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.
- Program cuts at the State level may have a negative impact on funding for programs. The funding of Oak Grove operations may not be impacted by state revenue shortfalls. However, special projects may be postponed.
- The current deployment of troops for Ft. Campbell to the Middle East and other places around the world may have an impact on the general economic conditions of the area, thus having a potential impact on Oak Grove's revenues.

Requests for Information

This financial report is designed to provide a general overview of the City of Oak Grove's finances for all those with an interest in the government's finances. Questions concerning any of the information provided or requests for additional financial information should be addressed to the Oak Grove Finance Director, Oak Grove, KY 42262.

City of Oak Grove, Kentucky
Statement of Net Assets
June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 729,372	\$ 93,773	\$ 823,145	\$ 117,574
Investments	1,295,064	378,985	1,674,049	-
Receivables, net:				
Accounts/utilities	-	228,911	228,911	-
Taxes and liens	202,172	-	202,172	91,691
Occupational license and franchise fees	79,403	-	79,403	-
Intergovernmental	-	-	-	-
Other	-	7,352	7,352	-
Due from other funds	-	9,427	-	-
Other current assets	118,761	20,211	138,972	-
Ristricted assets:				
Cash and cash equivalents	388,155	641,156	1,029,311	28,490
Investments	-	293,143	293,143	-
Capital assets:				
Depreciable, net	4,707,466	2,345,113	7,052,579	8,320,845
Non-depreciable	1,865,567	90,170	1,955,737	1,632,859
Note Receivable - HWEA				
Within one year		142,000	142,000	-
More than one year		2,395,000	2,395,000	-
Note Receivable - Tourism Commission				
Within one year	223,340	-	223,340	-
More than one year	5,871,774	-	5,871,774	-
Other non-current assets	118,204	-	118,204	-
Total Assets	15,599,278	6,645,241	22,235,092	10,191,459
Liabilities:				
Accounts payable and other current liabilities	265,631	114,136	379,767	5,235
Accrued liabilities	39,864	7,005	46,869	-
Utility deposits	-	289,993	289,993	-
Due to other funds	9,427	-	-	-
Compensated absences	45,899	2,225	48,124	-
Liabilities payable from restricted assets:				
Accrued interest	11,794	4,950	16,744	-
Current portion of long term debt	638,183	180,825	819,008	223,340
Non-current liabilities:				
Due to City of Oak Grove	-	-	-	5,871,774
Bonds payable	711,461	2,718,560	3,430,021	-
Notes payable	57,544	165,413	222,957	-
Capital leases	7,509,927	-	7,509,927	-
Total Liabilities	9,289,730	3,483,107	12,763,410	6,100,349
Net Assets:				
Invested in capital assets, net of related debt	4,580,462	2,107,485	6,687,947	3,858,590
Restricted - Note 7	388,155	934,299	1,322,454	28,490
Unrestricted	1,340,931	120,350	1,461,281	204,030
Total Net Assets	\$ 6,309,548	\$ 3,162,134	\$ 9,471,682	\$ 4,091,110

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
General government	\$ 909,664	\$ 170,679	\$ -	\$ -	\$ (738,985)	\$ -	\$ (738,985)	\$ -
Public safety	2,173,984	11,822	74,975	-	(2,087,187)	-	(2,087,187)	-
Public works	353,640	-	-	68,600	(285,040)	-	(285,040)	-
Parks and recreation	274,341	21,072	-	-	(253,269)	-	(253,269)	-
Interest expense	70,483	-	-	-	(70,483)	-	(70,483)	-
Total Governmental Activities	<u>3,782,112</u>	<u>203,573</u>	<u>74,975</u>	<u>68,600</u>	<u>(3,434,964)</u>	<u>-</u>	<u>(3,434,964)</u>	<u>-</u>
Business-Type Activities:								
Water	1,942,402	1,458,054	-	84,750	-	(399,598)	(399,598)	-
Total Business-Type Activities	<u>1,942,402</u>	<u>1,458,054</u>	<u>-</u>	<u>84,750</u>	<u>-</u>	<u>(399,598)</u>	<u>(399,598)</u>	<u>-</u>
Total Primary Government	<u>\$ 5,724,514</u>	<u>\$ 1,661,627</u>	<u>\$ 74,975</u>	<u>\$ 153,350</u>	<u>(3,434,964)</u>	<u>(399,598)</u>	<u>(3,834,562)</u>	<u>-</u>
Component Unit:								
Tourism commission	\$ 1,180,166	\$ 76,322	\$ 4,120	\$ -	-	-	-	(1,099,724)
Total Component Unit	<u>\$ 1,180,166</u>	<u>\$ 76,322</u>	<u>\$ 4,120</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,099,724)</u>
General Revenues:								
Taxes and related revenues:								
Property taxes					707,264	-	707,264	-
Insurance premium taxes					374,875	-	374,875	-
Restaurant taxes					-	-	-	790,372
Hotel/Motel taxes					-	-	-	251,533
Parks and recreation taxes					136,144	-	136,144	-
Occupational and license taxes					998,949	-	998,949	-
Franchise taxes					318,181	-	318,181	-
Other taxes					242,866	-	242,866	836
Intergovernmental					142,087	-	142,087	-
Investment income					39,276	9,489	48,765	9,383
Other revenue					185,496	431,752	617,248	-
Gain (Loss) on sale of property					209	-	209	-
Transfers					737,799	(737,799)	-	-
Total General Revenues and Transfers					<u>3,883,146</u>	<u>(296,558)</u>	<u>3,586,588</u>	<u>1,052,124</u>
Change in Net Assets					448,182	(696,156)	(247,974)	(47,600)
Net Assets - Beginning of Year (as restated)					5,861,366	3,858,290	9,719,656	4,138,710
Net Assets - End of Year					<u>\$ 6,309,548</u>	<u>\$ 3,162,134</u>	<u>\$ 9,471,682</u>	<u>\$ 4,091,110</u>

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
 Balance Sheet
 Governmental Funds
 June 30, 2012

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>			
Cash and cash equivalents	\$ 729,371	\$ -	\$ 729,371
Investments	1,295,064	-	1,295,064
Receivables, Net:			
Intergovernmental	-	-	-
Taxes and lien	202,172	-	202,172
Occupational license and franchise fees	79,403	-	79,403
Prepaid expense	118,761	-	118,761
Restricted Assets:			
Cash and cash equivalents	336,778	51,377	388,155
Total Assets	<u>2,761,549</u>	<u>51,377</u>	<u>2,812,926</u>
<u>Liabilities and Fund Balances:</u>			
Liabilities:			
Accounts payable	265,631	-	265,631
Accrued liabilities	39,864	-	39,864
Compensated absences	45,899	-	45,899
Deferred tax revenue	-	-	-
Due to other funds	9,427	-	9,427
Total Liabilities	<u>360,821</u>	<u>-</u>	<u>360,821</u>
Fund Balance:			
Nonspendable	118,761	-	118,761
Restricted:			
Debt service	59,328	-	59,328
Special projects	123,544	51,377	174,921
Capital projects	153,906	-	153,906
Unassigned	1,945,189	-	1,945,189
Total Fund Balances	<u>2,400,728</u>	<u>51,377</u>	<u>2,452,105</u>
Total Liabilities and Fund Balances	<u>\$ 2,761,549</u>	<u>\$ 51,377</u>	<u>\$ 2,812,926</u>

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Assets
 June 30, 2012

Total fund balances of governmental funds	\$	2,452,105
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet		6,573,033
Other assets are not available to pay for current period expenses and, therefore, are deferred in the governmental fund balance sheets:		
Due from Tourism Commission		6,095,115
Some liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds balance sheet. Those liabilities consist of the following:		
Long-term debt		(8,917,115)
Debt issuance costs		118,204
Accrued interest expense		(11,794)
		(8,899,705)
Net assets of governmental activities	\$	6,309,548

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental funds
For the Year Ended June 30, 2012

	General Fund	Municipal Road Aid Fund	Total Governmental Funds
Revenues:			
Taxes & licenses	\$ 2,778,279	\$ -	\$ 2,778,279
Charges for services	203,573	-	203,573
Grants	143,575	-	143,575
Intergovernmental	136,959	5,128	142,087
Interest income	39,135	141	39,276
Miscellaneous	185,496	-	185,496
Total Revenues	<u>3,487,017</u>	<u>5,269</u>	<u>3,492,286</u>
Expenditures:			
Current:			
General government	816,579	-	816,579
Public safety	2,025,866	-	2,025,866
Public works	262,738	38,558	301,296
Parks and recreation	193,336	-	193,336
Debt Service:			
Principal	496,776	21,696	518,472
Interest and other charges	74,433	602	75,035
Capital outlays	<u>1,212,453</u>	<u>156,024</u>	<u>1,368,477</u>
Total Expenditures	<u>5,082,181</u>	<u>216,880</u>	<u>5,299,061</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,595,164)</u>	<u>(211,611)</u>	<u>(1,806,775)</u>
Other Financing Sources:			
Sale of property	209	-	209
Transfers in (out)	<u>838,545</u>	<u>(100,746)</u>	<u>737,799</u>
Total Other Financing Sources	<u>838,754</u>	<u>(100,746)</u>	<u>738,008</u>
Net Change in Fund Balance	(756,410)	(312,357)	(1,068,767)
Fund balances - beginning (As Restated)	<u>3,157,138</u>	<u>363,734</u>	<u>3,520,872</u>
Fund balances - ending	<u>\$ 2,400,728</u>	<u>\$ 51,377</u>	<u>\$ 2,452,105</u>

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
 Reconciliation of the Governmental funds Statement of Revenues, Expenditures
 and Changes in Fund Balance to the Statement of Activities
 For the Year Ended June 30, 2012

Net change in fund balance - total governmental funds \$ (1,068,767)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the government-wide statement of activities, however, the cost of these assets are allocated over their estimated useful lives as depreciation expense.

Capital outlays	1,332,959
Depreciation expense	(389,899)

Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums and discounts when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.

Principal payments on long term debt	518,472
Amortization of discount	(1,055)
Amortization of costs	(8,290)

Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental fund statements. The change in accrued interest. 5,606

In the statement of activities, compensated absences are measured by amounts actually earned by employees during the fiscal year. In the governmental fund statements, however, compensated absences are measured by the amount of financial resources actually expended during the year. The change in the amount accrued. 59,156

Change in net assets of governmental activities \$ 448,182

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business-type Activities		
	Water	Sewer	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 93,773	\$ -	\$ 93,773
Investments	74,987	303,998	378,985
Receivables, net:			
Accounts	228,911	-	228,911
Other	7,352	-	7,352
Due from other funds	9,427	-	9,427
Due from HWEA - within one year	-	142,000	142,000
Other current assets	20,211	-	20,211
Total Current Assets	<u>434,661</u>	<u>445,998</u>	<u>880,659</u>
Noncurrent Assets:			
Restricted cash and cash equivalents	641,156	-	641,156
Restricted investments	221,404	71,739	293,143
Depreciable assets, net	2,345,113	-	2,345,113
Non-depreciable assets	90,170	-	90,170
Due from HWEA - more than one year	-	2,395,000	2,395,000
Total Noncurrent Assets	<u>3,297,843</u>	<u>2,466,739</u>	<u>5,764,582</u>
Total Assets	<u>3,732,504</u>	<u>2,912,737</u>	<u>6,645,241</u>
Liabilities:			
Current liabilities:			
Accounts payable	114,136	-	114,136
Utility deposits	289,993	-	289,993
Compensated absences	2,225	-	2,225
Accrued salaries	7,005	-	7,005
Accrued interest	4,950	-	4,950
Current portion of long-term debt	38,825	142,000	180,825
Total Current Liabilities	<u>457,134</u>	<u>142,000</u>	<u>599,134</u>
Noncurrent Liabilities:			
Bonds payable	323,560	2,395,000	2,718,560
Notes payable	165,413	-	165,413
Total Noncurrent Liabilities	<u>488,973</u>	<u>2,395,000</u>	<u>2,883,973</u>
Total Liabilities	<u>946,107</u>	<u>2,537,000</u>	<u>3,483,107</u>
Net Assets:			
Invested in capital assets, net of related debt	2,107,485	-	2,107,485
Restricted - Note 7	862,560	71,739	934,299
Unrestricted	(183,648)	303,998	120,350
Total Net Assets	<u>\$ 2,786,397</u>	<u>\$ 375,737</u>	<u>\$ 3,162,134</u>

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities		
	Water	Sewer	Total
<u>Operating Revenues:</u>			
Charges for services - water	\$ 1,409,765	\$ -	\$ 1,409,765
Charges for services - sanitation	48,289	-	48,289
 Total Operating Revenues	 1,458,054	 -	 1,458,054
<u>Operating Expenses:</u>			
Personnel services	477,762	-	477,762
Water cost	906,081	-	906,081
Sanitation expense	2,203	-	2,203
Contractual services	61,637	-	61,637
Utilities	97,500	-	97,500
Repairs and maintenance	28,251	-	28,251
Materials and supplies	70,800	-	70,800
Office and administrative	116,626	-	116,626
Depreciation	170,020	-	170,020
 Total Operating Expense	 1,930,880	 -	 1,930,880
 Operating Income (Loss)	 (472,826)	 -	 (472,826)
<u>Non-Operating Revenue (Expense):</u>			
Other income	431,752	-	431,752
Interest income	9,489	-	9,489
Interest expense	(11,522)	-	(11,522)
 Total Non-Operating Revenue (Expense)	 429,719	 -	 429,719
 Increase (Decrease) in Net Assets Before Contributions and Transfers	 (43,107)	 -	 (43,107)
<u>Capital Contributions and Transfers:</u>			
Customers	84,750	-	84,750
Grants	-	-	-
Transfers in (out)	(79,500)	(658,299)	(737,799)
 Total Capital Contributions and Transfers	 5,250	 (658,299)	 (653,049)
 Change in Net Assets	 (37,857)	 (658,299)	 (696,156)
 Net Assets - Beginning	 2,824,254	 1,034,036	 3,858,290
 Net Assets - Ending	 \$ 2,786,397	 \$ 375,737	 \$ 3,162,134

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Cash Flows - Continued
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities		
	Water	Sewer	Total
<u>Cash Flows From Operating Activities</u>			
Receipts from customers	\$ 1,459,069	\$ -	\$ 1,459,069
Payments to suppliers	(1,445,021)	-	(1,445,021)
Payments to employees	(491,194)	-	(491,194)
Net cash provided (used) by operating activities	<u>(477,146)</u>	<u>-</u>	<u>(477,146)</u>
<u>Cash Flows From Non-Capital Financing Activities</u>			
Other revenues	615,158	-	615,158
Contributions from customers	24,850	-	24,850
Customer deposits, net	7,843	-	7,843
Transfers to other funds	(119,031)	(628,195)	(747,226)
Net cash provided (used) by non-capital financing activities	<u>528,820</u>	<u>(628,195)</u>	<u>(99,375)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>			
Principal payments on debt	(37,907)	(140,000)	(177,907)
Acquisition and construction of capital assets	(36,134)	-	(36,134)
Interest paid on debt	(18,140)	-	(18,140)
Net cash provided (used) by capital and related financing activities	<u>(92,181)</u>	<u>(140,000)</u>	<u>(232,181)</u>
<u>Cash Flows From Investing Activities</u>			
Investment income	9,489	-	9,489
Purchase of investments	(6,846)	-	(6,846)
Principal receipts on note receivable	-	757,184	757,184
Net cash provided (used) by investing activities	<u>2,643</u>	<u>757,184</u>	<u>759,827</u>
Net increase (decrease) in cash and cash equivalents	(37,864)	(11,011)	(48,875)
Cash and equivalents, beginning of the year	<u>772,792</u>	<u>11,011</u>	<u>783,803</u>
Cash and equivalents, end of the year	<u>\$ 734,929</u>	<u>\$ -</u>	<u>\$ 734,929</u>
<u>Reconciliation of Total Cash and Cash Equivalents</u>			
Current assets - cash and cash equivalents	\$ 93,773	\$ -	\$ 93,773
Restricted assets - cash and cash equivalents	<u>641,156</u>	<u>-</u>	<u>641,156</u>
	<u>\$ 734,929</u>	<u>\$ -</u>	<u>\$ 734,929</u>

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Cash Flows - Continued
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities		
	Water	Sewer	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating loss	\$ (472,826)	\$ -	\$ (472,826)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	170,020	-	170,020
Change in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	1,015	-	1,015
Prepaid expense	(1,298)	-	(1,298)
Increase (decrease) in:			
Accounts payable	(160,625)	-	(160,625)
Compensated absences	(13,432)	-	(13,432)
Net cash provided (used) by operating activities	<u>\$ (477,146)</u>	<u>\$ -</u>	<u>\$ (477,146)</u>

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies

The accounting policies of the City of Oak Grove, Kentucky (the “City”) and its discretely presented component unit have been established in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governments. The following is a summary of the most significant accounting policies:

a. Reporting Entity

The City is located in the south-central portion of Kentucky, just adjacent to the Tennessee-Kentucky state line. The City was incorporated in 1974. The City operates under a Mayor-Council form of government and provides general governmental services, public safety, public works, parks and recreation services, as authorized by its charter.

The governmental reporting entity consists of the City (Primary Government) and its component unit. Component units are legally separate organizations for which the City is financially accountable or other organizations whose nature and significant relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and (i) either the City’s ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the City.

i. Discretely Presented Component Unit

As required by generally accepted accounting principles, these financial statements present the financial position and results of operations of the City and its component unit, the City of Oak Grove Recreational, Tourist and Convention Commission (the “Tourism Commission”). The Tourism Commission was established through City ordinance under the laws of the State of Kentucky. The Tourism Commission was established to promote recreational, tourism, and convention activities within the City’s limits. Separate financial statements for the Tourism Commission may be obtained from the Tourism Commission by writing the Commission at P.O. Box 756, Oak Grove, Kentucky.

The City allocates 100% of restaurant and hotel taxes to the Tourism Commission. For the fiscal year ended June 30, 2012, \$0 of restaurant and hotel taxes were collected and remitted to the Tourism Commission by the City. Instead, the Tourism Commission began collecting these tax revenues directly from taxpayers. The City subleases the Oak Grove Convention Center facility to the Tourism Commission. The City is obligated under two capital leases associated with this facility. There were no other significant transactions between the City and the Tourism Commission during the fiscal year.

b. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities report information on all of the activities of the primary government and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. These statements distinguish between the governmental and business-type activities of the City.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds. Separate financial statements are provided for governmental funds and proprietary funds. The City has no fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, grants, and various other taxes, licenses, and charges for services. The primary expenditures are for general government, public safety, public works, parks, and recreation activities.

Municipal Road Aid Fund - The Municipal Road Aid Fund is a special revenue fund that is used to account for the state allocation of the gasoline tax to the City. These funds may be used for street construction, reconstruction and maintenance. The Department of Local Government requires the City to maintain receipts and disbursements from this funding source in a fund separate from the General Fund.

The City reports the following proprietary funds:

Water Fund - The Water Fund is used to account for the provision of water and trash collection services to the residents of the City. Activities of the fund include administration, operation and maintenance of the water system. The fund is also used to account for the accumulation of resources for, and the payment of, long-term debt relative to the water system. All of the costs of the water system are financed through charges to utility customers.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

Sewer Fund - The Sewer Fund is used to account for the sewer activity of the City. In May 2008, the sewer plant and infrastructure were sold to the Hopkinsville Sewerage and Water Works Commission (HWEA). The City performs billing and collection services, relative to sewer services provided to the City's residents; and remits amounts collected for sewer services to HWEA.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

All funds of the City are maintained during the year using the modified accrual basis of accounting.

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are non-exchange transactions, and revenues from property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Inter-fund services provided and used are not eliminated in the process of consolidation.

Proprietary Fund Financial Statements: Proprietary funds are presented in the financial statements on the accrual basis of accounting, similar to the basis used by government-wide statements and are accounted for on a flow of economic resources measurement focus. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period they are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources management focus and the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period when they become susceptible to accrual (i.e., when they are "measurable" and "available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the City

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, if measurable, except for un-matured principal and interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt are reported as other financing sources.

Property taxes, franchise taxes, licenses, charges for services, intergovernmental revenues, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

d. FASB Statements

The City's proprietary funds apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

e. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation of the fund balances in the governmental funds to the net assets reported in the government-wide statements. The reconciling items reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. In addition, capital assets and long-term debt are added to the governmental funds to compile the long-term view in the governmental activities column of the government-wide statement of net assets.

A similar reconciliation is included for the statement of revenues, expenditures and changes in fund balances of the governmental funds. The reconciling items reflect the transition from the modified accrual accounting basis used for governmental funds to the accrual basis of accounting used in the statement of activities. Capital outlay is replaced with depreciation expense. The principal payments on long-term debt are eliminated from the operating costs.

f. Budgetary Control

Annual budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles. Proprietary fund budgets are adopted on the modified accrual basis of accounting. All annual appropriations lapse at fiscal year end. The mayor submits the proposed budget to the Council no later than June 1. Council revises and adopts the budget no later than June 30. The budget ordinance establishes authorized appropriations at the department level of control. Amendments are adopted during the year, as necessary, to comply with KRS 91A.030.

g. Deposits and Investments

Kentucky Revised Statute 66.480 permits the City to invest in obligations of the United States and of its agencies and instrumentalities, including repurchase agreements, commercial bank certificates of deposit, savings and loan deposits and the Commonwealth of Kentucky investment

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

pool. As security for deposits in excess of FDIC insurance coverage, the City requires banks to pledge securities in an amount to exceed such excess deposits. Investments of the City are carried at fair value. Certificates of deposit are carried at cost, since redemption terms do not consider market or interest rate risks.

h. Cash and Cash Equivalents

The City considers all highly liquid investments (included restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

i. Restricted Assets

Certain proceeds from bonds and grants, funds set aside for the repayment of bonds and loans, and other amounts required to be set aside by third parties are classified as restricted assets because their use is limited by applicable laws, grant agreements or loan covenants.

j. Allowance for Doubtful Accounts

All utility and property tax receivables are shown net of an allowance for uncollectible accounts. Utility receivables that have been classified as inactive have been included in the allowance for uncollectible accounts. Estimated uncollectible accounts are established based upon the type and age of the related receivable and historical experience.

k. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost in excess of \$10,000, and an estimated useful life in excess of one year. Additions or improvements that significantly add value to an asset or increase its capacity or efficiency are capitalized. Other costs for repairs and maintenance are expensed as incurred.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed by the City.

Property, plant and equipment of the primary government and its component unit are depreciated using the straight line method over the following estimated useful lives:

Buildings and Improvements	15 to 40 years
Vehicles	5 years
Furniture and Equipment	5 to 10 years
Infrastructure and Utility Plant	30 to 50 years

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, which requires the inclusion of infrastructure capital assets in local government's basis financial statements. In accordance with Statement No. 34, the City has elected to report infrastructure prospectively.

The City's assets under capitalized lease obligations are recorded at the discounted present value of the future minimum lease payments at inception of the respective leases. The amounts capitalized are being amortized under the straight-line method over the estimated life of the asset. Amortization of these assets has been included in depreciation expense.

l. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

m. Compensated absences

All full-time employees are entitled to vacation leave based upon the following schedule:

One year of service	40 hours per year
Two years of service	80 hours per year
Five years of service	120 hours per year
Ten years of service	160 hours per year

Annual leave accrues from the anniversary of the date of hire, on a pro-rated basis. Carryover of accumulated leave is limited to 80 hours, as of the anniversary of the date of hire. Resigning employees will be paid for accumulated annual leave, up to the maximum (80 hours) they are permitted to carryover; provided the employee gives at least fourteen (14) calendar days prior written notice of their resignation.

Based upon the limitation on the carryover of accumulated leave, all accrued leave is considered a current liability and, thus, is recorded as a current liability in the government-wide financial statements.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

n. Net Assets and Fund Balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. At year-end, restricted net assets consisted of restricted cash and investments held for payment of future construction contracts, amounts restricted to payment of future debt service obligations, and amounts restricted for use in street improvement and construction projects.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints place on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

- Non-spendable Fund Balance - Amounts that cannot be spent because they are either (1) not in spendable form, or (2) legally or contractually required to be maintained intact.
- Restricted Fund Balance - Amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.
- Committed Fund Balance - Amounts that can only be used for specific purposes pursuant to constraints established by formal action of the City's highest level of decision making authority, which would be ordinances or resolutions passed by City Council. Those committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by ordinance or resolution.
- Assigned Fund Balance - Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the City Council, City Mayor, or any other body or official which has been delegated the authority to assign amounts to be used for a specific purpose.
- Unassigned Fund Balance - Amounts of spendable fund balance that has not been restricted, committed, or assigned to a specific purpose or other fund.

The City has not adopted a minimum fund balance policy for the General Fund. The City considers restricted amounts to be spent first, when both restricted and unrestricted fund balances are available. Additionally, for purposes of fund balance classification, expenditures are to be spent first from restricted fund balance, followed, in order, by committed fund balance, assigned fund balance and lastly unassigned fund balance.

o. Non-Exchange Transactions

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, entitlements, grants, and donations. Property taxes levied are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenues from grants, entitlements and donations, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

requirements (which specify the year when the resources are required to be used or the year when use is first permitted), and matching requirements (which require the City to provide local resources to be used for a specified purpose). On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

p. Use of Estimates

The City used estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were used.

2. Deposits

Custodial credit risk is the risk that in the event of bank failure, the City’s deposits may not be returned. State statutes require that all deposits in financial institutions be fully collateralized by United States Government obligations or direct obligations of the State of Kentucky (including agencies and instrumentalities). Pledged collateral must have a market value of not less than the principal amount of deposits. The City’s deposits, including certificates of deposit, were insured or collateralized as required by State statute at June 30, 2012.

As of June 30, 2012, the carrying amount of the City’s deposits was \$3,819,645 and the bank balance of \$3,596,839 was categorized as follows:

Insured by FDIC	\$	713,285
Uninsured and collateralized with securities held by the pledging financial institution		2,883,554
Total	\$	3,596,839

As of June 30, 2012, none of the Tourism Commission’s deposits were exposed to custodial credit risk.

3. Receivables

As of June 30, 2012 for the City’s major funds, including the applicable allowance for uncollectible accounts were as follows:

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Component Unit</u>
Accounts	\$ -	\$ 275,124	\$ 275,124	\$ -
Taxes	357,128	-	357,128	91,691
Special assessments and Liens	-	-	-	-
Intergovernmental	-	-	-	-
Grants	-	-	-	-
Other	-	7,352	7,352	-
	<hr/>	<hr/>	<hr/>	<hr/>
Gross receivables	357,128	282,476	639,604	91,691
Allowance for uncollectible accounts	(75,553)	(46,213)	(121,766)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net receivables	<u>\$ 281,575</u>	<u>\$ 236,263</u>	<u>\$ 517,838</u>	<u>\$ 91,691</u>

4. Investments

During 2012 and at June 30, 2012, all of the City's investments were comprised of nonnegotiable bank certificates of deposit. These certificates were held with Planters Bank and BB&T Bank. Early withdrawal penalties are considered negligible.

5. Property Taxes

The City's property tax is levied each October, 1 on assessed values as of the prior January 1, for all real and business personal property located within the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the City Council. Taxes are due November 1 immediately following the levy date and are delinquent after the following January 31. The City assesses a maximum penalty of 12% on delinquent taxes.

Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and, therefore, susceptible to accrual in accordance with generally accepted accounting principles, have been recognized as revenue.

The City is permitted by Section 157 of the Constitution of Kentucky to levy taxes up to \$.750 per \$100 of assessed valuation for general governmental services other than school purposes. The real property tax rate for the year ended June 30, 2012, was \$.255 per \$100, which allows the City to have a tax margin of \$.495 per \$100 on the assessed valuation of \$271,066,994. The City allocated one and one-half cents of the real property tax levy to Parks and Recreation. The personal property tax rate for the year ended June 30, 2012, was \$.176 per \$100, which allows the City to have a tax margin of \$.574 per \$100 on the assessed valuation of \$14,868,099.

6. Stewardship, Compliance and Accountability

For the year ended June 30, 2012, expenditures exceeded appropriations in the following funds/departments. These overages were funded by excess revenues in other funds/departments and available fund balances.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

Department/Category	Excess of Actual Expenditures Over Budget
General Fund:	
General government	\$ 210,638
Public safety	114,311
Debt service - principal	167,616
Capital outlays	842,393
Road Aide Fund:	
Public works	38,558
Debt service - principal	21,696
Debt service - interest	602
Transfers out	100,746

7. Restricted Assets

The City held cash and investments that were restricted by bond loan covenants and assets restricted as to use. These assets consisted of the following at June 30, 2012:

	Cash and Equivalents	Certificates of Deposit	Totals
Governmental Funds			
Capital projects	\$ 153,906	\$ -	\$ 153,906
Public safety	24,750	-	24,750
Roads	150,171	-	150,171
Debt service	59,328	-	59,328
Totals	\$ 388,155	\$ -	\$ 388,155
Proprietary Funds			
Bond Sinking Fund	\$ 94,184	\$ -	\$ 94,184
Operations and maintenance	116,403	-	116,403
Debt service reserve	161,267	293,143	454,410
Capital projects	29,730	-	29,730
Meter deposits	239,572	-	239,572
Totals	\$ 641,156	\$ 293,143	\$ 934,299

8. Interfund Transfers

Interfund transfers during the year ended June 30, 2012 were as follows:

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

Transfers In	Transfers Out			
General Fund	Municipal Road Aid Fund	Water Fund	Sewer Fund	Total
\$ 838,545	\$ 100,746	\$ 79,500	\$ 658,299	\$ 838,545

Transfers were used, primarily, to move funds from the proprietary funds to the General Fund to assist in providing general governmental operations, public safety, public works, and parks and recreation services.

9. Capital Assets

Capital asset activity of the City for the year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Disposals	Balance June 30, 2012
Governmental Activities:				
Non-depreciable:				
Land	\$ 721,836	\$ 605,000	\$ -	\$ 1,326,836
Construction in progress	16,796	521,935	-	538,731
Total non-depreciable capital assets	738,632	1,126,935	-	1,865,567
Depreciable				
Buildings	2,693,991	50,000	-	2,743,991
Infrastructure	1,627,829	147,586	-	1,775,415
Machinery and equipment	2,307,052	8,438	-	2,315,490
Vehicles	1,143,229	-	-	1,143,229
Total depreciable capital assets	7,772,101	206,024	-	7,978,125
Less accumulated depreciation	(2,880,760)	(389,899)	-	(3,270,659)
Total depreciable capital assets, net	4,891,341	(183,875)	-	4,707,466
Total governmental activities capital assets, net	\$ 5,629,973	\$ 943,060	\$ -	\$ 6,573,033

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

	Balance June 30, 2011	Additions	Disposals	Balance June 30, 2012
Business-type Activities:				
Non-depreciable:				
Land	\$ 90,170	\$ -	\$ -	\$ 90,170
Total non-depreciable capital assets	90,170	-	-	90,170
Depreciable				
Buildings	54,653	-	-	54,653
Infrastructure	4,306,372	-	-	4,306,372
Machinery and equipment	319,924	36,134	-	356,058
Vehicles	214,433	-	-	214,433
Total depreciable capital assets	4,895,382	36,134	-	4,931,516
Less accumulated depreciation	(2,416,383)	(170,020)	-	(2,586,403)
Total depreciable capital assets, net	2,478,999	(133,886)	-	2,345,113
Total business-type capital assets, net	<u>\$ 2,569,169</u>	<u>\$ (133,886)</u>	<u>\$ -</u>	<u>\$ 2,435,283</u>
	Balance June 30, 2011	Additions	Disposals	Balance June 30, 2012
Component Unit:				
Non-depreciable:				
Land	\$ 1,632,859	\$ -	\$ -	\$ 1,632,859
Construction in progress	3,915,819	1,107,942	5,023,761	-
Total non-depreciable capital assets	5,548,678	1,107,942	5,023,761	1,632,859
Depreciable				
Buildings	3,520,283	5,023,761	-	8,544,044
Furniture, fixtures and equipment	163,703	184,515	-	348,218
Vehicles	27,524	-	-	27,524
Total depreciable capital assets	3,711,510	5,208,276	-	8,919,786
Less accumulated depreciation	(360,610)	(238,331)	-	(598,941)
Total depreciable capital assets, net	3,350,900	4,969,945	-	8,320,845
Total component unit capital assets, net	<u>\$ 8,899,578</u>	<u>\$ 6,077,887</u>	<u>\$ 5,023,761</u>	<u>\$ 9,953,704</u>

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

For the year ended June 30, 2012, depreciation on capital assets was charged to the governmental functions as follows:

Governmental Activities:

General fund	\$	64,332
Municipal road aid		39,797
Public safety		183,538
Public works		17,452
Parks and recreation		84,780
		<hr/>
Total depreciation expense	\$	<u>389,899</u>

Business-type Activities:

Water Fund	\$	<u>170,020</u>
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Component Unit Activities:

General fund	\$	<u>238,331</u>
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10. Assets Under Capital Lease

Leases that qualify as capital leases for accounting purposes have been recorded at the present value of future minimum lease payments as of the date of lease inception. Amortization related to the capital leases has been included in depreciation expense. The following assets are recorded under capital leases:

	Original Purchase Price	Present Value of Minimum Lease Payments
Governmental Activities:		
Fire truck	\$ 143,500	\$ 19,194
4 Vehicles	152,587	-
Fire equipment	107,920	-
Tractor	66,125	
Vehicle	29,231	21,036
Vehicle	30,767	13,324
Community center	2,000,000	1,670,715
Convention center (sub-leased to the City of Oak Grove Recreational, Tourist and Convention Commission):		
2005 Lease	2,500,000	2,071,956
2009 Lease	4,500,000	4,096,127
	<hr/>	<hr/>
Totals	\$ 9,530,130	\$ 7,892,352

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

11. Long-Term Liabilities

Long-term debt activity of the City for the year ended June 30, 2012, was as follows:

	June 30, 2011	Additions	Reductions	June 30, 2012	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 815,000	\$ -	\$ 45,000	\$ 770,000	\$ 45,000
Planters Bank Notes:					
Corneal Lane Bridge	103,347	-	44,172	59,175	46,987
Hugh Hunter	213,910	-	81,781	132,129	86,772
City Hall	176,107	-	99,109	76,998	76,998
Emergency One, Inc. Leases Payable					
Fire Truck	37,483	-	18,289	19,194	19,194
Leasing One, Inc. Leases Payable					
Vehicle	40,119	-	40,119	-	-
Fire Equipment	28,319	-	28,319	-	-
Tractor	21,696	-	21,696	-	-
Vehicle	26,491	-	5,455	21,036	5,702
Vehicle	25,767	-	12,443	13,324	13,324
KY League of Cities Leases Payable					
Community Center	1,792,805	-	122,090	1,670,715	116,635
2005 Convention Center	2,133,462	-	61,506	2,071,956	64,095
2009 Convention Center	4,252,788	-	156,661	4,096,127	163,475
Total governmental activities	<u>9,667,294</u>	<u>-</u>	<u>736,640</u>	<u>8,930,654</u>	<u>638,183</u>
<u>Business-type Activities:</u>					
Water Fund:					
US Department of Agriculture Bonds	348,370	-	12,140	336,230	12,670
KY Infrastructure Authority B Notes Payable	217,335	-	25,767	191,568	26,155
Total Water Fund	<u>565,705</u>	<u>-</u>	<u>37,907</u>	<u>527,798</u>	<u>38,825</u>
Sewer Fund:					
1998 Waterworks Revenue Refunding Bonds	730,000	-	55,000	675,000	55,000
2001 H KY Rural Water Finance Bonds	450,000	-	25,000	425,000	25,000
2002 B KY Rural Water Finance Bonds	1,497,000	-	60,000	1,437,000	62,000
Total Sewer Fund	<u>2,677,000</u>	<u>-</u>	<u>140,000</u>	<u>2,537,000</u>	<u>142,000</u>
Total Business-type Activities	<u>3,242,705</u>	<u>-</u>	<u>177,907</u>	<u>3,064,798</u>	<u>180,825</u>
Total Long-Term Debt - Primary Government	<u>\$ 12,909,999</u>	<u>\$ -</u>	<u>\$914,547</u>	<u>\$ 11,995,452</u>	<u>\$ 819,008</u>
<u>Component Unit:</u>					
City of Oak Grove - Sublease					
2005 Convention Center	\$ 2,133,461	\$ -	\$ 61,506	\$ 2,071,955	\$ 64,095
2009 Convention Center	4,252,789	-	156,662	4,096,127	163,475
Total Long-Term Debt - Component Unit	<u>\$ 6,386,250</u>	<u>\$ -</u>	<u>\$218,168</u>	<u>\$ 6,168,082</u>	<u>\$ 227,570</u>

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

Long-term debt payable at June 30, 2012, was comprised of the following:

Governmental Activities:	Interest Rate	Final Maturity Date	June 30, 2012
General Obligation Bonds Series 2005	3.00%	2025	\$ 770,000
Planters Bank Notes:			
Corneal Lane Bridge	5.90%	2014	59,175
Hugh Hunter	5.90%	2014	132,129
City Hall	4.00%	2013	76,998
Emergency One, Inc. Leases Payable:			
Fire Truck	4.95%	2013	19,194
Leasing One, Inc. Leases Payable:			
Vehicle	4.40%	2016	21,036
Vehicle	5.67%	2013	13,324
KY League of Cities Leases Payable:			
Community Center	Variable *	2024	1,670,715
2005 Convention Center	Variable *	2034	2,071,956
2009 Convention Center	Variable *	2029	4,096,127
Bond Discount			<u>(13,539)</u>
 Total governmental activities			 <u>8,917,115</u>
 <u>Business-type Activities:</u>			
Water Fund:			
US Department of Agriculture Bonds	4.375%	2028	336,230
KY Infrastructure Authority B Notes Payable	1.50%	2019	<u>191,568</u>
 Total Water Fund			 <u>527,798</u>
Sewer Fund:			
1998 Waterworks Revenue Refunding Bonds	3.75% - 4.90%	2021	675,000
2001 H KY Rural Water Finance Bonds	3.125% - 4.50%	2025	425,000
2002 B KY Rural Water Finance Bonds	2.285% - 4.405%	2029	<u>1,437,000</u>
 Total Sewer Fund			 <u>2,537,000</u>
 Total Business-type Activities			 <u>3,064,798</u>
 Total Long-Term Debt - General Government			 <u>\$ 11,981,913</u>
 <u>Component Unit:</u>			
City of Oak Grove - Sublease:			
2005 Convention Center	Variable *	2034	\$ 2,071,956
2009 Convention Center	Variable *	2029	4,096,127
Discount			<u>(72,968)</u>
 Total Long-Term Debt - Component Unit			 <u>\$ 6,095,115</u>

* Variable rates are determined by remarketing agents based on the LIBOR variable rate index.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on and a pledge of the net revenues of the water and sewer system, and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond Funds. Remaining revenues may then be used for any lawful purpose.

In accordance with the bond issue from the Kentucky Infrastructure Authority Fund B, a repair and maintenance fund, was to be established. Annual revenues equaling ten percent of the annual debt service on this loan were to be set aside in a repair and maintenance fund until such fund has a balance equal to five percent of the original loan amount. At June 30, 2012, the required balance was \$27,808. The City is in compliance with this requirement.

The Tourism Commission (Component Unit) entered into sub-leases with the City of Oak Grove (Primary Government) in order to fund various capital construction projects. The leases are solely secured by liens on and pledges of the net revenues of the Tourism Commission. Ordinances provide that the revenue of the Tourism Commission be used first to pay operating and maintenance expenses of the Tourism Commission and, second, to establish and maintain the capital lease payments. Remaining revenues may then be used for any lawful purpose.

Annual Requirements to Retire Debt Obligations:

Governmental Activities			
Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
2013	\$ 45,000	\$ 32,795	\$ 77,795
2014	50,000	31,085	81,085
2015	50,000	29,185	79,185
2016	50,000	27,285	77,285
2017	55,000	25,185	80,185
2018 - 2022	305,000	89,610	394,610
2023 - 2027	215,000	19,575	234,575
Total bonds	<u>770,000</u>	<u>254,720</u>	<u>1,024,720</u>
Notes			
2013	210,757	10,078	220,834
2014	57,545	1,316	58,861
Total notes	<u>268,302</u>	<u>11,394</u>	<u>279,695</u>

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

Governmental Activities - Continued

Year Ending June 30	Principal	Interest	Total Debt Service
Leases			
2013	382,425	236,499	618,925
2014	363,195	262,735	625,930
2015	377,210	257,634	634,844
2016	388,229	243,793	632,021
2017	400,194	229,185	629,380
2018 - 2022	2,243,736	910,896	3,154,632
2023 - 2027	2,186,921	482,224	2,669,145
2028 - 2032	1,345,655	125,329	1,470,985
2033 - 2034	204,788	6,810	211,598
Total leases	<u>7,892,353</u>	<u>2,755,106</u>	<u>10,647,459</u>
Total Governmental Activities	<u>\$ 8,930,655</u>	<u>\$ 3,021,220</u>	<u>\$ 11,951,875</u>

Business Type Activities - Water Fund

Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
2013	\$ 12,670	\$ 14,711	\$ 27,381
2014	13,220	14,156	27,376
2015	13,800	13,578	27,378
2016	14,400	12,974	27,374
2017	15,030	12,344	27,374
2018 - 2022	85,620	51,261	136,881
2023 - 2027	106,080	30,818	136,898
2028 - 2030	75,410	6,693	82,103
Total bonds	<u>336,230</u>	<u>156,535</u>	<u>492,765</u>
Notes			
2013	26,155	2,775.80	28,931
2014	26,549	2,382.00	28,931
2015	26,949	1,982.26	28,931
2016	27,355	1,576.52	28,931
2017	27,766	1,164.66	28,931
2018 - 2022	56,793	1,069	57,862
Total notes	<u>191,568</u>	<u>10,950</u>	<u>202,518</u>
Total Water Fund	<u>\$ 527,798</u>	<u>\$ 167,485</u>	<u>\$ 695,283</u>

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

Business Type Activities - Sewer Fund			
Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
2013	\$ 142,000	\$ 111,457	\$ 253,457
2014	149,000	105,559	254,559
2015	158,000	99,297	257,297
2016	177,000	92,630	269,630
2017	178,000	84,984	262,984
2018 - 2022	928,000	298,740	1,226,740
2023 - 2027	579,000	121,053	700,053
2028 - 2029	226,000	14,977	240,977
Total Sewer Fund	\$ 2,537,000	\$ 928,696	\$ 3,465,696

Component Unit			
Year Ending June 30	Principal	Interest	Total Debt Service
Leases			
2013	\$ 227,571	\$ 236,211	\$ 463,782
2014	236,969	227,285	464,254
2015	246,919	217,866	464,785
2016	257,102	208,245	465,347
2017	268,070	197,896	465,966
2018 - 2022	1,517,764	821,511	2,339,275
2023 - 2027	1,863,275	494,733	2,358,008
2028 - 2032	1,345,655	137,779	1,483,434
2033 - 2034	204,757	7,450	212,207
Total Component Unit Debt	\$ 6,168,082	\$ 2,548,976	\$ 8,717,058

All remaining general government debt is being liquidated through the City General Fund. Proprietary fund and Component Unit obligations are being liquidated through those funds, respectively. The following interests costs were incurred and expensed during the fiscal year ended June 30, 2012:

Governmental activities	\$70,483
Business-type activities	11,522
Component unit	12,943

12. Employee Retirement System

The City and its Component Unit are participants in the County Employees' Retirement System (CERS), a cost sharing, multi-employer, defined benefit, public employee retirement system. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the State legislature. Under the provision of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

Hazardous position employees are required to contribute 8% of their creditable compensation to the plan and nonhazardous position employees are required to contribute 5% of their creditable compensation to the plan, by state statute. Employees hired on or after September 1, 2008, are required to contribute an additional 1% to a health insurance fund. The City is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. For the year ended June 30, 2012 the City contributed 19.55% (37.60% under the Hazardous Duty Plan) of participating employees' creditable compensation to the plan. The contribution requirements of employers and plan members are established and may be amended by the CERS Board of Trustees. The City has met its funding requirements for the fiscal year ended June 30, 2012.

The City's (Primary Government) contributions for the fiscal years ending June 30, were as follows:

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed
June 30, 2012	\$ 354,060	100%
June 30, 2011	317,620	100%
June 30, 2010	282,802	100%

The Tourism Commission's (Component Unit) contributions for the fiscal years ending June 30, were as follows:

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed
June 30, 2012	\$ 18,612	100%
June 30, 2011	16,740	100%
June 30, 2010	12,991	100%

In addition to the pension benefits described above, the Kentucky Retirement System (KRS) provides postretirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement System Insurance fund was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees' Retirement System (KERS), the County Employees' retirement System (CERS), and the State Police Retirement System (SPRS). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund.

For members participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

Service Period	Percent Paid by Insurance Fund
20 years or more	100%
15 to 19 years	75%
10 to 14 years	50%
4 to 9 years	25%
Less than 4 years	0%

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of 10 years, nonhazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding of the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within 20 years. The increases commenced with the 1997 valuation used by the Kentucky General Assembly to establish employer contribution rates for the biennium.

Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 564-4646.

13. Deferred Compensation

The City allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority administers tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit full-time employees to defer taxation of a portion of their salary until future years. Participation in these plans is voluntary and these plans are funded entirely by employee contributions.

14. Contributed Capital

Contributed capital includes contributed infrastructure within new property developments and fees collected for new connection and tap fees. The City accepts responsibility for the maintenance of water and sewer lines, and streets one year after the completion of any new subdivision or development within the City. Upon acceptance of this responsibility, the City records the value of these improvements as contributed capital. There was no contributed capital infrastructure additions during the fiscal year ended June 30, 2012.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

15. Significant Financial Influence

The City is located adjacent to Fort Campbell Military Base. Significant changes in operations or the size of the base or its personnel could have a financial impact upon the City. Management is not aware of any plans by the Federal Government for significant changes to the base.

16. 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. The City carries commercial insurance to protect it against these types of risks, including workers' compensation. Settle claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

17. Note Receivable – HWEA

During the year ended June 30, 2008, the City entered into an agreement to sell the City's sewer plant to the Hopkinsville Sewerage and Water Works Commission (HWEA). The total sale price amounted to \$7,218,184 which included cash payments of \$3,627,600 and debt assumption by HWEA of \$3,590,584. The cash portion of the sale agreement was financed over a period of four years. A summary of the activity for the fiscal year ended June 30, 2012, follows:

	Cash Financing	Debt Assumption	Totals
Note Balance July 1, 2011	\$ 617,184	\$ 2,677,000	\$ 3,294,184
Payments received during the fiscal year	617,184	-	617,184
Release by creditors of liability transferred to HWEA	-	140,000	140,000
Note Balance June 30, 2012	\$ -	\$ 2,537,000	\$ 3,154,184

Presented on the statement of net assets under the following captions:

Note Receivable:

Within one year	\$ -	\$ 142,000	\$ 142,000
More than one year	-	2,395,000	2,395,000
	\$ -	\$ 2,537,000	\$ 2,537,000

18. Note Receivable - Tourism Convention Center

Effective September 27, 2005, the City executed a long-term lease, with the Kentucky League of Cities Funding Trust, for a new Convention Center. The lease agreement required 344 monthly payments beginning October 1, 2005 and ending May 1, 2034. On September 27, 2005, the Convention Center was subleased to the Tourism Commission. The sublease required monthly lease payments from the Tourism Commission to the City in amounts equal to the lease payments due to the Kentucky League of Cities Funding Trust.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

Effective October 2, 2009, the City executed a second long term lease with the Kentucky League of Cities Funding Trust related to the Convention Center. The lease agreement required 240 monthly payments beginning November 1, 2009 and ending October 1, 2029. On October 2, 2009, the Convention Center was subleased to the Tourism Commission. The sublease required monthly lease payments from the Tourism Commission to the City in amounts equal to the lease payments due to the Kentucky League of Cities Funding Trust.

	2005 Lease	2009 Lease	Totals
Sublease balance - beginning of year	\$ 2,133,461	\$ 4,252,788	\$ 6,386,249
Less payments made by Tourism Commission during the fiscal year	61,506	156,661	218,167
Sublease balance - end of year	2,071,955	4,096,127	6,168,082
Unamortized lease costs	-	(72,968)	(72,968)
Sublease balance - end of year	<u>\$ 2,071,955</u>	<u>\$ 4,023,159</u>	<u>\$ 6,095,114</u>

Presented on the statement of net assets under the following captions:

Note Receivable		
Within one year		\$ 223,340
More than one year		5,871,774
		<u>\$ 6,095,114</u>

Future minimum sublease payments to be received from the Tourism Commission:

Year Ending June 30	Principal	Interest	Total Lease Payments
2013	\$ 227,571	\$ 236,211	\$ 463,782
2014	236,969	227,285	464,254
2015	246,919	217,866	464,785
2016	257,102	208,245	465,347
2017	268,070	197,896	465,966
2018 - 2022	1,517,764	821,511	2,339,275
2023 - 2027	1,863,275	494,733	2,358,008
2028 - 2032	1,345,655	137,779	1,483,434
2033 - 2034	204,757	7,450	212,207
	<u>\$ 6,168,082</u>	<u>\$ 2,548,976</u>	<u>\$ 8,717,058</u>

19. Commitments

On May 2, 2000, the City entered into an agreement (effective January 1, 2003) with the Logan Todd Regional Water Commission (the Commission), whereby the Commission agrees to sell and deliver to the City, and the City agrees to purchase and receive from the Commission, substantially all of the water required by the City. Under the contract, the City pays the Commission a minimum rate of \$59,411 for

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2012

the first 25,831,000 gallons of water needed each month, and an additional \$2.30 per each additional 1,000 gallons used each month. The agreement covers a period of 50 years and expires in 2053.

20. Contingencies

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes that disallowances, if any, will not be significant.

The City is primary obligor on several loans and financing instruments which were assumed by HWEA during the fiscal year ended June 30, 2008. These debt obligations were assumed by HWEA in connection with the sale by the City of its sewer plant and related equipment to HWEA. At June 30, 2012, the outstanding balance of the debt assumed was \$2,537,000. Although this debt was assumed by HWEA as part of the sales agreement, the City remains primarily liable on the debt instruments and could be liable for the unpaid balance on these debts if HWEA were to default on its agreement.

21. Subsequent Events

The Oak Grove City Council approved, on November 15, 2011, the construction of a new building for Emergency Medical Services in the amount of \$625,860. The City Council also approved, on July 19, 2012, the purchase of land for approximately \$604,000 and equipment for \$83,867. Construction of this building continued throughout the 2012 fiscal year and the building was completed during the 2013 fiscal year.

The Oak Grove city Council approved, on July 18, 2012, the financing of the Emergency Medical Services building referred to above, and financing for Animal Control and Public Works buildings in the amount of \$1,200,000.

On November 2, 2012, Oak Grove purchased land and financed the purchase with a short term loan from Planters Bank in the amount of \$235,500. This loan requires quarterly interest payments and a lump sum balloon payment in November 2013.

22. Prior Period Adjustments

During the fiscal year ended June 30, 2012, certain adjustments were made to correct errors in previously issued financial statements. The nature of these adjustments was to record certain infrastructure assets contributed to the City by developers during 2007; that had not previously been recorded and to record applicable depreciation of these assets. The cumulative effect of these adjustments on the previously issued government-wide financial statements was a \$569,477 increase in previously reported Net Assets and the Change in Net Assets, respectively.

City of Oak Grove, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
<u>Revenues:</u>				
Taxes & licenses	\$ 3,533,400	\$ 3,431,987	\$ 2,778,279	\$ (653,708)
Charges for services	103,330	108,605	203,573	94,968
Grants	60,950	101,685	143,575	41,890
Intergovernmental	142,000	139,270	136,959	(2,311)
Interest income	-		39,135	39,135
Miscellaneous	1,083,020	968,346	185,496	(782,850)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	4,922,700	4,749,893	3,487,017	(1,262,876)
<u>Expenditures:</u>				
Current:				
General government	614,070	605,940	816,578	(210,638)
Public safety	1,981,005	1,911,555	2,025,866	(114,311)
Public works	269,750	269,750	262,738	7,012
Parks and recreation	231,935	231,935	193,336	38,599
Debt Service:				
Principal	382,495	329,160	496,776	(167,616)
Interest and other charges	100,085	95,215	74,433	20,782
Capital outlays	381,000	370,060	1,212,453	(842,393)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	3,960,340	3,813,615	5,082,180	(1,268,565)
Excess (Deficiency) of Revenues Over				
Expenditures	<hr/>	<hr/>	<hr/>	<hr/>
	962,360	936,278	(1,595,163)	(2,531,441)
<u>Other Financing Sources:</u>				
Debt proceeds	550,000	550,000	-	(550,000)
Sale of property	-	-	209	209
Transfers in (out)	522,800	821,285	838,544	17,259
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources	1,072,800	1,371,285	838,753	(532,532)
Net Change in Fund Balance				
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 2,035,160	\$ 2,307,563	(756,410)	\$ (3,063,973)
Fund balances - beginning				
			<hr/>	
			2,921,012	
Fund balances - ending				
			<hr/>	
			\$ 2,164,602	

See accountant's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – Municipal Road Aid Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenues:</u>				
Intergovernmental	\$ 120,000	\$ -	\$ 5,128	\$ 5,128
Interest income	-	-	141	141
Total Revenues	120,000	-	5,269	5,269
<u>Expenditures:</u>				
Current:				
Public works	-	-	38,558	(38,558)
Debt Service:				
Principal	-	-	21,696	(21,696)
Interest and other charges	-	-	602	(602)
Capital outlays	200,000	200,000	156,024	43,976
Total Expenditures	200,000	200,000	216,880	(16,880)
Excess (Deficiency) of Revenues Over Expenditures	(80,000)	(200,000)	(211,611)	(11,611)
<u>Other Financing Sources:</u>				
Transfers in (out)	-	-	(100,746)	(100,746)
Total Other Financing Sources	-	-	(100,746)	(100,746)
Net Change in Fund Balance	\$ (80,000)	\$ (200,000)	(312,357)	\$ (112,357)
Fund balances - beginning			363,734	
Fund balances - ending			\$ 51,377	

See accountant's report and accompanying notes.

**INDEPENDENT AUDITORS' 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**

To the Mayor and City Council
City of Oak Grove, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Oak Grove, Kentucky (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 25, 2014. Our report was modified to include a reference to other auditors. 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. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2012-1 and 2012-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's responses and accordingly, we express no opinion on them.

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

A handwritten signature in blue ink that reads "Borland Benefield P.C.".

Borland Benefield, P.C.
Birmingham, Alabama
February 25, 2014

City of Oak Grove, Kentucky

**Schedule of Findings and Responses
For the Year Ended June 30, 2012**

2012-1 - Lack of Segregation of Duties

Condition: One or more City employees were authorized to initiate transfers of City funds between bank accounts; reconcile internal accounting records to bank statements; and record journal entries. These functions were incompatible as they involved both custody of the asset (cash) and the function of accounting for the asset.

Criteria: Each key step of an accounting system should be segregated amongst employees. Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition.

Cause: Due to a poorly designed internal control system, incompatible work functions were often performed by the same individual.

Effect: A lack of segregation of incompatible functions might allow for fraud or override of the system.

Recommendation: We recommend that the functions associated with the custody of cash (the ability to transfer funds, initiate online payments, sign checks, etc.) be segregated from the functions associated with accounting for and recording cash transactions.

Response: Management concurs with the recommendation and has begun to take steps to separate functions and provide oversight where needed.

2012-2 - Inconsistencies and Delays in the Performance of Account Reconciliations

Condition: Several balance sheet accounts were not being reconciled timely and accurately. Such balance sheet accounts included cash, accounts receivables, prepaid assets, capital assets, accounts payables and other liabilities. We noted several unexplained differences between reconciled balances and the balances in the accounting records of the City.

Criteria: The performance of balance sheet account reconciliations is a basic accounting function that should be performed on a timely basis. The purpose of performing reconciliations is to verify the accuracy of amounts recorded in the accounting system of the City. Discrepancies should be investigated and resolved as soon as possible for accurate reporting and protection of the City's assets.

Cause: The person responsible for the accounting and reporting function lacked the skills and knowledge in recording the City's financial transactions which resulted in untimely balance sheet account reconciliations and unresolved discrepancies.

Effect: Unreconciled balance sheet accounts caused accounting system balances to be misstated. Numerous audit adjustments, including a prior period adjustment, were required to correct these balances.

Recommendation: We recommend that balance sheet account reconciliations be performed timely and resolve any unexplained differences.

Response: Management concurs with the recommendation and has begun to take steps to address the issue.