

City of Oak Grove, Kentucky

Financial Statements

June 30, 2013

City of Oak Grove, Kentucky
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For the Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S 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 City of Oak Grove, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of City of Oak Grove Recreational, Tourist and Convention Commission ("the Tourism Commission"), which represent all of the respective assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Tourism Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, 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 City of Oak Grove, Kentucky, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 21 to the financial statements, in 2013 the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2–8 and 45 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Borland Benefield, P.C.
Birmingham, Alabama
October 16, 2014

City of Oak Grove, Kentucky
Management's Discussion and Analysis
June 30, 2013

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, 2013. 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, 2013 fiscal year by \$9,526,947 (net position.) Of this amount, \$1,943,422 was unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.
- The government's total net position increased in fiscal year 2013 by \$100,505 or 1% from the previous year.
- As of the close of the current fiscal year, Oak Grove's governmental funds reported combined ending fund balances of \$2,675,340. Of this amount, an amount of \$1,969,695 is available for spending at the government's discretion (unassigned fund balance.) This is approximately 36% of total General Fund annual expenditures.
- Oak Grove's total liabilities at the close of the fiscal year June 30, 2013, were \$13,307,402, an increase of \$543,992 (4%) from the previous fiscal year. This increase reflects borrowing on notes and capital leases for buildings, land and equipment.

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 Position presents information on all of Oak Grove's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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 (governmental 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.

City of Oak Grove, Kentucky
Management's Discussion and Analysis
June 30, 2013

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 only one governmental fund, the General Fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund. Prior to 2013, Oak Grove maintained a second governmental fund, the Road Aide Fund. This fund was closed during the 2013 fiscal year.

Oak Grove adopts an annual appropriated budget for its major governmental fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the budget.

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 position may serve over time as a useful indicator of a government's financial position.

City of Oak Grove, Kentucky
Management's Discussion and Analysis
June 30, 2013

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

City of Oak Grove's Net Position

	Primary Government		Component Unit	
	2013	2012	2013	2012
Assets				
Current and other assets	\$ 12,902,892	\$ 13,181,536	\$ 253,188	\$ 237,755
Capital assets	9,931,457	9,008,316	9,716,054	9,953,704
Total assets	<u>22,834,349</u>	<u>22,189,852</u>	<u>9,969,242</u>	<u>10,191,459</u>
Liabilities				
Current and other liabilities	1,621,565	1,600,505	238,942	228,575
Long-term liabilities	11,685,837	11,162,905	5,639,034	5,871,774
Total liabilities	<u>13,307,402</u>	<u>12,763,410</u>	<u>5,877,976</u>	<u>6,100,349</u>
Net Position				
Net investment in capital assets	6,263,634	6,642,707	3,844,280	3,858,590
Restricted	1,319,891	1,322,454	90,137	28,490
Unrestricted	1,943,422	1,461,281	156,849	204,030
Total net position	<u>\$ 9,526,947</u>	<u>\$ 9,426,442</u>	<u>\$ 4,091,266</u>	<u>\$ 4,091,110</u>

Changes in Net Position: Oak Grove's net position increased by \$100,505 in fiscal year 2013. Key elements of this increase are as follows:

- Total revenues were \$5,604,735, an increase of 2% from the prior year. Of this, program revenues represent 42% of total revenues. Major sources of program revenues included operating and capital grants and contributions and charges for services. General revenues represent the remaining 58% of total revenues. Major sources of general revenues include occupational and license taxes, and property taxes.
- Expenditures totaled \$5,504,230, a decrease of 4% 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.

City of Oak Grove, Kentucky
Management's Discussion and Analysis
June 30, 2013

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's Changes in Net Position

	Primary Government		Component Unit	
	2013	2012	2013	2012
Revenues				
Program revenues				
Charges for services	\$ 1,666,891	\$ 1,661,627	\$ 155,700	\$ 76,323
Grants and contributions	701,491	228,325	13,882	4,120
General revenues				
Taxes	2,772,441	2,778,279	1,008,403	1,042,741
Investment earnings	56,954	48,765	108	9,383
Other	406,958	759,544	226	-
Total revenues	<u>5,604,735</u>	<u>5,476,540</u>	<u>1,178,319</u>	<u>1,132,567</u>
Expenses				
General government	798,930	909,664	-	-
Public safety	2,268,437	2,173,984	-	-
Public works	225,498	353,640	-	-
Parks and recreation	254,460	274,341	-	-
Tourism	-	-	1,165,221	1,167,223
Business-type activities	1,801,297	1,942,402	-	-
Interest	155,608	70,483	12,943	12,943
Total expnese	<u>5,504,230</u>	<u>5,724,514</u>	<u>1,178,164</u>	<u>1,180,166</u>
Change in net position	100,505	(247,974)	155	(47,599)
Net position - beginning of year as restated	9,426,442	9,674,416	4,091,111	4,138,710
Net position- end of year	<u>\$ 9,526,947</u>	<u>\$ 9,426,442</u>	<u>\$ 4,091,266</u>	<u>\$ 4,091,111</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, 2013

As of the end of the June 30, 2013 fiscal year, the combined ending fund balances of Oak Grove's governmental fund totaled \$2,675,340. The unassigned fund balance was \$1,969,695, 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, \$705,645, is either not in spendable form or was restricted to indicate that it is not available for new spending.

Oak Grove has one major governmental fund, the General Fund.

1. The General Fund is the primary operating fund of Oak Grove. At the end of the June 30, 2013 fiscal year, unassigned fund balance of the General Fund was \$1,969,695, while the General Fund total fund balances were \$2,675,340. The General Fund balance increased \$274,612 from the prior year.

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 \$1,824,853, a decrease of 8% from the prior year. Of this, customer charges represented 82% of total revenues. Charges for services are the major source of program revenue. General revenues represented 18% of total revenues.

Expenses totaled \$1,801,297, a decrease of 7% from the previous year.

The Water Fund's unrestricted net position at the end of the June 30, 2013 fiscal year amounted to \$ 292,777. The increase in unrestricted net position from the previous year was \$476,425. The Sewer Fund had unrestricted net position of \$306,983 at the close of the June 30, 2013 fiscal year. The increase in unrestricted net position was \$2,985.

Capital Assets and Debt Administration

Capital Assets: Oak Grove's investment in capital assets for its governmental and business-type activities as of June 30, 2013 totaled \$9,931,457 (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, 2013, was as follows:

City of Oak Grove, Kentucky
Management's Discussion and Analysis
June 30, 2013

	June 30, 2013	June 30, 2012
Governmental Activities:		
Land	\$ 1,562,336	\$ 1,326,836
Construction in progress	-	538,731
Buildings	3,414,620	2,193,200
Infrastructure	1,569,848	1,605,693
Machinery and equipment	618,668	691,870
Vehicles	358,916	216,703
Totals	\$ 7,524,388	\$ 6,573,033
	June 30, 2013	June 30, 2012
Business-type Activities:		
Land	\$ 90,170	\$ 90,170
Buildings	112,744	25,616
Infrastructure	2,088,495	2,230,566
Machinery and equipment	115,660	83,100
Vehicles	-	5,831
Totals	\$ 2,407,069	\$ 2,435,283
	June 30, 2013	June 30, 2012
Component Unit:		
Land	\$ 1,632,859	\$ 1,632,859
Buildings	7,887,562	8,085,213
Machinery and equipment	195,633	235,633
Totals	\$ 9,716,054	\$ 9,953,705

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 2013 fiscal year, Oak Grove had total debt outstanding of \$12,715,851. Of this amount, \$3,443,560 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.

City of Oak Grove, Kentucky
Management's Discussion and Analysis
June 30, 2013

Actual revenues of the general government fell short of budgeted revenues for the year by \$76,737 while actual expenditures exceeded budgeted expenditures by \$696,544. The excess of expenditures over revenues for the year was offset by debt proceeds. 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 2014 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 Position
June 30, 2013

	Primary Government		Total	Component Unit
	Governmental Activities	Business-Type Activities		
Assets:				
Cash and cash equivalents	\$ 661,072	\$ 386,765	\$ 1,047,837	\$ 62,123
Investments	1,222,810	382,663	1,605,473	-
Receivables, net:				
Accounts/utilities	-	203,486	203,486	-
Taxes and liens	185,352	-	185,352	96,297
Occupational license and franchise fees	66,605	-	66,605	-
Other	-	7,352	7,352	-
Other current assets	103,544	20,453	123,997	4,631
Ristricted assets:				
Cash and cash equivalents	602,101	426,620	1,028,721	90,137
Investments	-	291,170	291,170	-
Capital assets:				
Depreciable, net	5,962,052	2,316,899	8,278,951	8,083,195
Non-depreciable	1,562,336	90,170	1,652,506	1,632,859
Note Receivable - HWEA				
Within one year	-	149,000	149,000	-
More than one year	-	2,246,000	2,246,000	-
Note Receivable - Tourism Commission				
Within one year	232,740	-	232,740	-
More than one year	5,639,034	-	5,639,034	-
Other non-current assets	76,125	-	76,125	-
Total Assets	16,313,771	6,520,578	22,834,349	9,969,242
Liabilities:				
Accounts payable and other current liabilities	72,429	122,761	195,190	6,202
Accrued liabilities	36,504	7,005	43,509	-
Utility deposits	-	261,777	261,777	-
Compensated absences	57,210	4,466	61,676	-
Liabilities payable from restricted assets:				
Accrued interest	24,449	4,950	29,399	-
Current portion of long term debt	829,337	200,677	1,030,014	232,740
Non-current liabilities:				
Due to City of Oak Grove	-	-	-	5,639,034
Bonds payable	611,083	2,556,340	3,167,423	-
Notes payable	-	138,863	138,863	-
Capital leases	8,341,502	38,049	8,379,551	-
Total Liabilities	9,972,514	3,334,888	13,307,402	5,877,976
Net Position:				
Net investment in capital assets	4,395,494	1,868,140	6,263,634	3,844,280
Restricted - Note 7	602,101	717,790	1,319,891	90,137
Unrestricted	1,343,662	599,760	1,943,422	156,849
Total Net Position	\$ 6,341,257	\$ 3,185,690	\$ 9,526,947	\$ 4,091,266

See independent auditor's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
General government	\$ 798,930	\$ 110,433	\$ -	\$ -	\$ (688,497)	\$ -	\$ (688,497)	\$ -
Public safety	2,268,437	10,220	229,604	-	(2,028,613)	-	(2,028,613)	-
Public works	225,498	-	57,411	339,085	170,998	-	170,998	-
Parks and recreation	254,460	33,706	-	-	(220,754)	-	(220,754)	-
Interest expense	155,608	-	-	-	(155,608)	-	(155,608)	-
Total Governmental Activities	<u>3,702,933</u>	<u>154,359</u>	<u>287,015</u>	<u>339,085</u>	<u>(2,922,474)</u>	<u>-</u>	<u>(2,922,474)</u>	<u>-</u>
Business-Type Activities:								
Water	1,801,297	1,512,532	-	75,391	-	(213,374)	(213,374)	-
Total Business-Type Activities	<u>1,801,297</u>	<u>1,512,532</u>	<u>-</u>	<u>75,391</u>	<u>-</u>	<u>(213,374)</u>	<u>(213,374)</u>	<u>-</u>
Total Primary Government	<u>\$ 5,504,230</u>	<u>\$ 1,666,891</u>	<u>\$ 287,015</u>	<u>\$ 414,476</u>	<u>(2,922,474)</u>	<u>(213,374)</u>	<u>(3,135,848)</u>	<u>-</u>
Component Unit:								
Tourism commission	\$ 1,178,164	\$ 155,700	\$ 13,882	\$ -	-	-	-	(1,008,582)
Total Component Unit	<u>\$ 1,178,164</u>	<u>\$ 155,700</u>	<u>\$ 13,882</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,008,582)</u>
General Revenues:								
Taxes and related revenues:								
Property taxes					598,383	-	598,383	-
Insurance premium taxes					624,655	-	624,655	-
Restaurant taxes					-	-	-	754,712
Hotel/Motel taxes					-	-	-	253,691
Parks and recreation taxes					153,779	-	153,779	-
Occupational and license taxes					927,082	-	927,082	-
Franchise taxes					313,112	-	313,112	-
Other taxes					155,430	-	155,430	-
Intergovernmental					20,632	-	20,632	-
Investment income					49,935	7,019	56,954	108
Other revenue					163,831	229,911	393,742	226
Gain (Loss) on sale of property					(7,416)	-	(7,416)	-
Total General Revenues and Transfers					<u>2,999,423</u>	<u>236,930</u>	<u>3,236,353</u>	<u>1,008,737</u>
Change in Net Position					76,949	23,556	100,505	155
Net Position - Beginning of Year (as restated)					6,264,308	3,162,134	9,426,442	4,091,111
Net Position - End of Year					<u>\$ 6,341,257</u>	<u>\$ 3,185,690</u>	<u>\$ 9,526,947</u>	<u>\$ 4,091,266</u>

See independent auditor's report and accompanying notes.

City of Oak Grove, Kentucky
 Balance Sheet
 Governmental Funds
 June 30, 2013

	General Fund	Municipal Road Aid Fund	Total Governmental Funds
<u>Assets:</u>			
Cash and cash equivalents	\$ 661,071	\$ -	\$ 661,071
Investments	1,222,810	-	1,222,810
Receivables, Net:			
Taxes and lien	185,352	-	185,352
Occupational license and franchise fees	66,605	-	66,605
Prepaid expense	103,544	-	103,544
Restricted Assets:			
Cash and cash equivalents	602,101	-	602,101
 Total Assets	 2,841,483	 -	 2,841,483
 <u>Liabilities and Fund Balances:</u>			
Liabilities:			
Accounts payable	72,429	-	72,429
Accrued liabilities	36,504	-	36,504
Compensated absences	57,210	-	57,210
 Total Liabilities	166,143	-	166,143
 Fund Balance:			
Nonspendable	103,544	-	103,544
Restricted:			
Debt service	185,013	-	185,013
Special projects	417,088	-	417,088
Unassigned	1,969,695	-	1,969,695
 Total Fund Balances	2,675,340	-	2,675,340
 Total Liabilities and Fund Balances	\$ 2,841,483	\$ -	\$ 2,841,483

See independent auditor's report and accompanying notes.

City of Oak Grove, Kentucky
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Position
 June 30, 2013

Total fund balances of governmental funds	\$	2,675,340
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Amounts reported for governmental activities in the statement of net position 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		7,524,389
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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		5,871,774
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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		(9,781,922)
Debt issuance costs		76,125
Accrued interest expense		(24,449)
		(9,729,246)

Net position - governmental activities	\$	6,341,257
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City of Oak Grove, Kentucky
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Municipal Road Aid Fund	Total Governmental Funds
Revenues:			
Taxes & licenses	\$ 2,772,441	\$ -	\$ 2,772,441
Charges for services	154,359	-	154,359
Grants	626,100	-	626,100
Intergovernmental	20,632	-	20,632
Interest income	49,935	-	49,935
Miscellaneous	163,831	-	163,831
	<hr/>	<hr/>	<hr/>
Total Revenues	3,787,298	-	3,787,298
Expenditures:			
Current:			
General government	728,876	-	728,876
Public safety	1,927,047	-	1,927,047
Public works	221,692	-	221,692
Parks and recreation	169,761	-	169,761
Debt Service:			
Principal	736,554	-	736,554
Interest and other charges	141,898	-	141,898
Debt issuance costs	139,305	-	139,305
Capital outlays	1,403,166	-	1,403,166
	<hr/>	<hr/>	<hr/>
Total Expenditures	5,468,299	-	5,468,299
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	(1,681,001)	-	(1,681,001)
Other Financing Sources:			
Sale of property	7,623	-	7,623
Debt proceeds	1,879,308	-	1,879,308
Debt premiums	17,305	-	17,305
Transfers in (out)	51,377	(51,377)	-
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources	1,955,613	(51,377)	1,904,236
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	274,612	(51,377)	223,235
	<hr/>	<hr/>	<hr/>
Fund balances - beginning	2,400,728	51,377	2,452,105
	<hr/>	<hr/>	<hr/>
Fund balances - ending	\$ 2,675,340	\$ -	\$ 2,675,340
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See independent auditor'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, 2013

Net change in fund balance - total governmental funds \$ 223,235

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	1,397,925
Depreciation expense	(431,528)
Basis of assets disposed of	(15,039)
Amortization of discount (Tourism)	4,230

Bond and note proceeds provide current financial resources to
 governmental funds, but issuing debt increases long-term liabilities in the
 statement of net position. Repayment of bond principal is an expenditure in
 the governmental funds, but the repayment reduces long-term liabilities in
 the statement of net position. Also, governmental funds report the effect of
 insurance 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	736,554
Amortization of discount	(5,285)
Loan, note and lease proceeds	(1,879,308)
Loan costs capitalized	87,000
Premium on bond issue	(17,305)
Amortization of loan costs	(10,875)

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. (12,655)

Change in net position - governmental activities \$ 76,949

See independent auditor's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities		
	Water	Sewer	Total
<u>Assets:</u>			
Current assets:			
Cash and cash equivalents	\$ 386,765	\$ -	\$ 386,765
Investments	75,680	306,983	382,663
Receivables, net:			
Accounts	203,486	-	203,486
Other	7,352	-	7,352
Due from HWEA - within one year	-	149,000	149,000
Total Current Assets	<u>693,736</u>	<u>455,983</u>	<u>1,149,719</u>
Noncurrent Assets:			
Restricted cash and cash equivalents	426,620	-	426,620
Restricted investments	222,245	68,925	291,170
Depreciable assets, net	2,316,899	-	2,316,899
Non-depreciable assets	90,170	-	90,170
Due from HWEA - more than one year	-	2,246,000	2,246,000
Total Noncurrent Assets	<u>3,055,934</u>	<u>2,314,925</u>	<u>5,370,859</u>
Total Assets	<u>3,749,670</u>	<u>2,770,908</u>	<u>6,520,578</u>
<u>Liabilities:</u>			
Current liabilities:			
Accounts payable	122,761	-	122,761
Utility deposits	261,777	-	261,777
Compensated absences	4,466	-	4,466
Accrued salaries	7,005	-	7,005
Accrued interest	4,950	-	4,950
Current portion of long-term debt	51,677	149,000	200,677
Total Current Liabilities	<u>452,636</u>	<u>149,000</u>	<u>601,636</u>
Noncurrent Liabilities:			
Bonds payable	310,340	2,246,000	2,556,340
Notes payable	138,863	-	138,863
Capital leases	38,049	-	38,049
Total Noncurrent Liabilities	<u>487,252</u>	<u>2,246,000</u>	<u>2,733,252</u>
Total Liabilities	<u>939,888</u>	<u>2,395,000</u>	<u>3,334,888</u>
<u>Net Position:</u>			
Net investment in capital assets	1,868,140	-	1,868,140
Restricted - Note 7	648,865	68,925	717,790
Unrestricted	292,777	306,983	599,760
Total Net Position	<u>\$ 2,809,782</u>	<u>\$ 375,908</u>	<u>\$ 3,185,690</u>

See independent auditor's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type Activities		
	Water	Sewer	Total
<u>Operating Revenues:</u>			
Charges for services - water	\$ 1,469,299	\$ -	\$ 1,469,299
Charges for services - sanitation	43,233	-	43,233
Total Operating Revenues	<u>1,512,532</u>	<u>-</u>	<u>1,512,532</u>
 <u>Operating Expenses:</u>			
Personnel services	448,504	-	448,504
Water cost	817,004	-	817,004
Contractual services	74,924	-	74,924
Repairs and maintenance	42,696	-	42,696
Materials and supplies	54,625	-	54,625
Office and administrative	165,860	-	165,860
Depreciation	179,653	-	179,653
Total Operating Expense	<u>1,783,266</u>	<u>-</u>	<u>1,783,266</u>
Operating Income (Loss)	<u>(270,734)</u>	<u>-</u>	<u>(270,734)</u>
 <u>Non-Operating Revenue (Expense):</u>			
Other income	229,911	-	229,911
Interest income	6,848	171	7,019
Interest expense	(18,031)	-	(18,031)
Total Non-Operating Revenue (Expense)	<u>218,728</u>	<u>171</u>	<u>218,899</u>
Increase (Decrease) in Net Position Before Contributions and Transfers	<u>(52,006)</u>	<u>171</u>	<u>(51,835)</u>
 <u>Capital Contributions and Transfers:</u>			
Customers	75,391	-	75,391
Total Capital Contributions and Transfers	<u>75,391</u>	<u>-</u>	<u>75,391</u>
Change in Net Position	23,385	171	23,556
Net Position - Beginning	<u>2,786,397</u>	<u>375,737</u>	<u>3,162,134</u>
Net Position - Ending	<u>\$ 2,809,782</u>	<u>\$ 375,908</u>	<u>\$ 3,185,690</u>

See independent auditor's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type Activities		
	Water	Sewer	Total
<u>Cash Flows From Operating Activities</u>			
Receipts from customers	\$ 1,537,957	\$ -	\$ 1,537,957
Payments to suppliers	(1,081,726)	-	(1,081,726)
Cash payments for interfund services	(65,000)	-	(65,000)
Payments to employees	(446,263)	-	(446,263)
Net cash provided (used) by operating activities	<u>(55,032)</u>	<u>-</u>	<u>(55,032)</u>
<u>Cash Flows From Non-Capital Financing Activities</u>			
Other revenues	285,542	-	285,542
Contributions from customers	19,760	-	19,760
Customer deposits, net	(34,680)	-	(34,680)
Transfers to other funds	9,427	-	9,427
Net cash provided (used) by non-capital financing activities	<u>280,049</u>	<u>-</u>	<u>280,049</u>
<u>Cash Flows From Capital and Related Financing Activities</u>			
Principal payments on debt	(50,367)	(142,000)	(192,367)
Acquisition and construction of capital assets	(89,941)	-	(89,941)
Interest paid on debt	(18,031)	-	(18,031)
Net cash provided (used) by capital and related financing activities	<u>(158,339)</u>	<u>(142,000)</u>	<u>(300,339)</u>
<u>Cash Flows From Investing Activities</u>			
Investment income	13,312	171	13,483
Purchase of investments	(1,534)	(171)	(1,705)
Principal receipts on note receivable	-	142,000	142,000
Net cash provided (used) by investing activities	<u>11,778</u>	<u>142,000</u>	<u>153,778</u>
Net increase (decrease) in cash and cash equivalents	78,456	-	78,456
Cash and equivalents, beginning of the year	<u>734,929</u>	<u>-</u>	<u>734,929</u>
Cash and equivalents, end of the year	<u>\$ 813,385</u>	<u>\$ -</u>	<u>\$ 813,385</u>
<u>Reconciliation of Total Cash and Cash Equivalents</u>			
Current assets - cash and cash equivalents	\$ 386,765	\$ -	\$ 386,765
Restricted assets - cash and cash equivalents	426,620	-	426,620
	<u>\$ 813,385</u>	<u>\$ -</u>	<u>\$ 813,385</u>

See independent auditor's report and accompanying notes.

City of Oak Grove, Kentucky
Statement of Cash Flows - Continued
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type Activities		
	Water	Sewer	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating loss	\$ (270,734)	\$ -	\$ (270,734)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	179,653	-	179,653
Change in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	25,425	-	25,425
Prepaid expense	(242)	-	(242)
Increase (decrease) in:			
Accounts payable	8,625	-	8,625
Compensated absences	2,241	-	2,241
Net cash provided (used) by operating activities	<u>\$ (55,032)</u>	<u>\$ -</u>	<u>\$ (55,032)</u>
 Schedule of Noncash Investing, Capital and Financing Activities			
Long term lease of capital assets	<u>\$ 61,498</u>	<u>\$ -</u>	<u>\$ 61,498</u>

See independent auditor's report and accompanying notes.

City of Oak Grove, Kentucky
Notes to Financial Statements
For the Year Ended June 30, 2013

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, Tourism 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, 2013, no 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 position 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. Governmental activities are generally financed through taxes, intergovernmental revenues, and

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

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. Indirect expenses are allocated to programs based upon an estimate of their proportional relevance to each individual program. 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 fund:

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. During 2013, this fund was combined with 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, 2013

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 considers revenues to be available if they are collected within 60 days of the end of the current

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

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. 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 position 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 position.

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 operating costs.

e. 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.

f. 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 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.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

g. 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.

h. 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.

i. 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.

j. 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

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.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

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.

k. 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 position. Bond premiums and discounts, as well as debt insurance 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 insurance costs are reported as other assets and amortized over the term of the related debt. All other bond or debt issuance costs are expensed as they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond insurance 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. Insurance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

l. 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.

m. Net Position and Fund Balances

Net position in government-wide and proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents 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 position consisted of restricted cash and investments held for payment of future

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

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. Amounts reported as non-spendable fund balance in the Governmental Funds balance sheet relate to prepaid expenditures.
- 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.

n. 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 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.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

o. 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.

p. Impact of Recently Issued Accounting Pronouncements

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

In June 2011, the GASB issued Statement 62, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASBS 63 added the components of deferred inflows and outflows of resources to the statement of net assets (position) and changed the title of the statement of net assets to the statement of net position. GASBS 62 identified net position, rather than net assets, as the residual of all other elements presented in the statement of net position. The City had no deferred outflows or inflows of resources at June 30, 2013.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASBS 65 established accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. GASBS 65 also changed the accounting principle related to debt issuance costs. Under the new Statement, debt issuance costs, excluding prepaid insurance costs, are to be expensed as incurred. Prior guidance recognized debt issuance costs as an asset to be amortized over the life of the related debt. This statement is effective for periods beginning after December 15, 2012. Earlier application was encouraged and the City implemented this statement in 2013. See note 21, below for a discussion of the impact of this statement on previously issued financial statements.

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, 2013.

As of June 30, 2013, the carrying amount of the City's deposits was \$3,973,2010 and the bank balance of \$3,843,128 was categorized as follows:

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

Insured by FDIC	\$	965,176
Uninsured and collateralized with securities held by the pledging financial institution		2,877,952
Total	\$	3,843,128

As of June 30, 2013, none of the Tourism Commission’s deposits were exposed to custodial credit risk.

3. Receivables

As of June 30, 2013 for the City’s major receivables, including the applicable allowance for uncollectible accounts were as follows:

	Governmental	Business-Type	Total	Component Unit
Accounts	\$ -	\$ 221,198	\$ 221,198	\$ -
Taxes	348,613	-	348,613	96,297
Other	-	7,352	7,352	-
	348,613	228,550	577,163	96,297
Gross receivables	348,613	228,550	577,163	96,297
Allowance for uncollectible accounts	(96,656)	(17,712)	(114,368)	-
Net receivables	\$ 251,957	\$ 210,838	\$ 462,795	\$ 96,297

4. Investments

Kentucky Revised Statutes (KRS 66.580) authorizes Kentucky municipalities to invest in obligations of the United States Treasury and United States agencies and instrumentalities (including repurchase agreements with national or state chartered banks); obligations and options to purchase obligations of the United States Treasury and certain government agencies; obligations of any corporation of the United States government; certificates of deposit and interest bearing accounts held with banks or savings and loan institutions insured by the FDIC or collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4); uncollateralized certificates of deposit and banker’s acceptances issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in the highest category by a nationally recognized rating agency; bonds or certificates of indebtedness of the State of Kentucky and its agencies and instrumentalities; securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; and certain shares of mutual funds having specific characteristics.

The City has not formally adopted deposit and investment policies that limit allowable deposits or investments and address exposure to specific risks. During 2013 and at June 30, 2013, 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.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

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, 2013, was \$.255 per \$100, which allows the City to have a tax margin of \$.506 per \$100 on the assessed valuation of \$290,028,873. 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, 2013, was \$.186 per \$100, which allows the City to have a tax margin of \$.585 per \$100 on the assessed valuation of \$17,134,200.

6. Stewardship, Compliance and Accountability

For the year ended June 30, 2013, expenditures exceeded appropriations in the following funds/departments. These overages were funded by excess revenues in other funds/departments and available fund balances.

<u>Department/Category</u>	<u>Excess of Actual Expenditures Over Budget</u>
General Fund:	
Public works	8,197
Debt service - principal	1,529
Interest and other charges	128,708
Debt issuance costs	139,305
Capital outlay	472,186

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

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, 2013:

	Cash and Equivalents	Certificates of Deposit	Totals
Governmental Funds			
Roads	\$ 417,088	\$ -	\$ 417,088
Debt service	185,013	-	185,013
Totals	\$ 602,101	\$ -	\$ 602,101
Proprietary Funds			
Bond Sinking Fund	\$ 94,372	\$ -	\$ 94,372
Operations and maintenance	116,635	-	116,635
Debt service reserve	161,750	291,170	452,920
Meter deposits	53,863	-	53,863
Totals	\$ 426,620	\$ 291,170	\$ 717,790

8. Interfund Transfers

Interfund transfers during the year ended June 30, 2013 were as follows:

Transfers In	Transfers Out			
General Fund	Municipal Road Aid Fund	Water Fund	Sewer Fund	Total
\$ 51,377	\$ 51,377	\$ -	\$ -	\$ 51,377

Transfers were used to close the Municipal Road Aid Fund during 2013.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

9. Capital Assets

Capital asset activity of the City for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Governmental Activities:				
Non-depreciable:				
Land	\$ 1,326,836	\$ 235,500	\$ -	\$ 1,562,336
Construction in progress	538,731	-	538,731	-
Total non-depreciable capital assets	<u>1,865,567</u>	<u>235,500</u>	<u>538,731</u>	<u>1,562,336</u>
Depreciable				
Buildings	2,743,991	1,305,046	-	4,049,037
Infrastructure	1,775,415	-	-	1,775,415
Machinery and equipment	2,315,490	74,298	29,379	2,360,409
Vehicles	1,143,229	321,808	-	1,465,037
Total depreciable capital assets	7,978,125	1,701,152	29,379	9,649,898
Less accumulated depreciation	<u>(3,270,659)</u>	<u>(431,528)</u>	<u>(14,341)</u>	<u>(3,687,846)</u>
Total depreciable capital assets, net	<u>4,707,466</u>	<u>1,269,624</u>	<u>15,038</u>	<u>5,962,052</u>
Total governmental activities capital assets, net	<u>\$ 6,573,033</u>	<u>\$ 1,505,124</u>	<u>\$ 553,769</u>	<u>\$ 7,524,388</u>
	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Business-type Activities:				
Non-depreciable:				
Land	\$ 90,170	\$ -	\$ -	\$ 90,170
Total non-depreciable capital assets	<u>90,170</u>	<u>-</u>	<u>-</u>	<u>90,170</u>
Depreciable				
Buildings	54,653	89,941	-	144,594
Infrastructure	4,306,372	-	-	4,306,372
Machinery and equipment	356,058	61,498	-	417,556
Vehicles	214,433	-	-	214,433
Total depreciable capital assets	4,931,516	151,439	-	5,082,955
Less accumulated depreciation	<u>(2,586,403)</u>	<u>(179,653)</u>	<u>-</u>	<u>(2,766,056)</u>
Total depreciable capital assets, net	<u>2,345,113</u>	<u>(28,214)</u>	<u>-</u>	<u>2,316,899</u>
Total business-type capital assets, net	<u>\$ 2,435,283</u>	<u>\$ (28,214)</u>	<u>\$ -</u>	<u>\$ 2,407,069</u>

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Component Unit:				
Non-depreciable:				
Land	\$ 1,632,859	\$ -	\$ -	\$ 1,632,859
Total non-depreciable capital assets	<u>1,632,859</u>	<u>-</u>	<u>-</u>	<u>1,632,859</u>
Depreciable				
Buildings	8,544,044	27,678	-	8,571,722
Furniture, fixtures and equipment	348,219	11,600	-	359,819
Vehicles	27,524	-	-	27,524
Total depreciable capital assets	8,919,787	39,278	-	8,959,065
Less accumulated depreciation	<u>598,941</u>	<u>276,929</u>	<u>-</u>	<u>875,870</u>
Total depreciable capital assets, net	<u>8,320,846</u>	<u>(237,651)</u>	<u>-</u>	<u>8,083,195</u>
Total component unit capital assets, net	<u>\$ 9,953,705</u>	<u>\$ (237,651)</u>	<u>\$ -</u>	<u>\$ 9,716,054</u>

For the year ended June 30, 2013, depreciation on capital assets was charged to the governmental functions as follows:

Governmental Activities:

General fund	\$ 64,812
Public safety	230,880
Public works	51,137
Parks and recreation	84,699
Total depreciation expense	<u>\$ 431,528</u>

Business-type Activities:

Water Fund	<u>\$ 179,653</u>
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Component Unit Activities:

General fund	<u>\$ 276,929</u>
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City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

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	Accumulated Depreciation	Present Value of Minimum Lease Payments
Governmental Activities:			
Police vehicles	\$ 321,808	\$ 64,362	\$ 234,962
Vehicle	29,231	14,128	15,335
Buildings	1,305,046	10,438	1,149,083
Community center	2,000,000	144,924	1,554,081
Convention center (sub-leased to the City of Oak Grove Recreational, Tourist and Convention Commission):			
2005 Lease	2,500,000	-	2,007,860
2009 Lease	4,500,000	-	3,932,652
	<u>10,656,085</u>	<u>233,852</u>	<u>8,893,973</u>
Totals - governmental activities			
Business-type Activities:			
Water Fund:			
Equipment	61,498	8,785	49,957
	<u>61,498</u>	<u>8,785</u>	<u>49,957</u>
Totals - primary government			
	<u>\$ 10,717,583</u>	<u>\$ 242,637</u>	<u>\$ 8,943,930</u>

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

11. Long-Term Liabilities

Long-term debt activity of the City for the year ended June 30, 2013, was as follows:

	June 30, 2012	Additions	Reductions	June 30, 2013	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 770,000	\$ -	\$ 45,000	\$ 725,000	\$ 50,000
Planters Bank Notes:					
Corneal Lane Bridge	59,175	-	59,175	-	-
Hugh Hunter	132,129	-	132,129	-	-
City Hall	76,998	-	76,998	-	-
Business Park Land	-	235,500	8,634	226,866	226,866
Emergency One, Inc. Leases Payable:					
Fire Truck	19,194	-	19,194	-	-
Leasing One, Inc. Leases Payable:					
Vehicle	21,036	-	5,701	15,335	5,953
Vehicle	13,324	-	13,324	-	-
Ford Motor Credit Lease Payable:					
Vehicles	-	321,808	86,846	234,962	74,276
KY Bond Corporation Lease Payable:					
Maintenance Garage	-	1,322,000	172,917	1,149,083	115,000
KY League of Cities Leases Payable:					
Community Center	1,670,715	-	116,634	1,554,081	120,272
2005 Convention Center	2,071,956	-	64,096	2,007,860	66,415
2009 Convention Center	4,096,127	-	163,475	3,932,652	170,554
Net premium/(discount)	(86,507)	17,305	5,285	(63,917)	-
 Total governmental activities	 8,844,147	 1,896,613	 969,408	 9,781,922	 829,337

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

	June 30, 2012	Additions	Reductions	June 30, 2013	Due Within One Year
<u>Business-type Activities:</u>					
Water Fund:					
US Department of Agriculture Bonds	336,230	-	12,670	323,560	13,220
KY Infrastructure Authority B Notes Payable	191,568	-	26,156	165,412	26,549
Trinity Finance - Lease	-	61,498	11,541	49,957	11,908
 Total Water Fund	 527,798	 61,498	 50,367	 538,929	 51,677
Sewer Fund:					
1998 Waterworks Revenue Refunding Bonds	675,000	-	55,000	620,000	60,000
2001 H KY Rural Water Finance Bonds	425,000	-	25,000	400,000	25,000
2002 B KY Rural Water Finance Bonds	1,437,000	-	62,000	1,375,000	64,000
 Total Sewer Fund	 2,537,000	 -	 142,000	 2,395,000	 149,000
 Total Business-type Activities	 3,064,798	 61,498	 192,367	 2,933,929	 200,677

Component Unit:	June 30, 2012	Additions	Reductions	June 30, 2013	Due Within One Year
City of Oak Grove - Sublease					
2005 Convention Center	\$ 2,071,956	\$ -	\$ 64,096	\$ 2,007,860	66,415
2009 Convention Center	4,096,127	-	163,475	3,932,652	170,555
Net premium/(discount)	(72,968)		4,230	(68,738)	-
 Total Long-Term Debt - Component Unit	 \$ 6,095,115	 \$ -	 \$ 231,801	 \$ 5,871,774	 \$ 236,970

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

Long-term debt payable at June 30, 2013, was comprised of the following:

<u>Governmental Activities:</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>June 30, 2013</u>
General Obligation Bonds Series 2005	3.00%	2025	\$ 725,000
Planters Bank Note:			
Business Park Land	5.50%	2014	226,866
Leasing One, Inc. Lease Payable:			
Vehicle	4.40%	2016	15,335
Ford Motor Credit Lease:			
Vehicles	5.35%	2016	234,962
KY Bond Corporation Lease Payable:			
Buildings	Variable	2022	1,149,083
KY League of Cities Leases Payable:			
Community Center	Variable *	2024	1,554,081
2005 Convention Center	Variable *	2034	2,007,860
2009 Convention Center	Variable *	2029	3,932,652
Net Bond Discount			<u>(63,917)</u>
 Total governmental activities			 <u>9,781,922</u>

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

Business-type Activities:	Interest Rate	Final Maturity Date	June 30, 2013
Water Fund:			
US Department of Agriculture Bonds	4.375%	2028	323,560
KY Infrastructure Authority B Notes Payable	1.50%	2019	165,412
Trinity Vendor Finance - Lease	3.15%	2017	<u>49,957</u>
Total Water Fund			<u>538,929</u>
Sewer Fund:			
1998 Waterworks Revenue Refunding Bonds	3.75% - 4.90%	2021	620,000
2001 H KY Rural Water Finance Bonds	3.125% - 4.50%	2025	400,000
2002 B KY Rural Water Finance Bonds	2.285% - 4.405%	2029	<u>1,375,000</u>
Total Sewer Fund			<u>2,395,000</u>
Total Business-type Activities			<u>2,933,929</u>
Total Long-Term Debt - General Government			<u>\$ 12,715,851</u>

Component Unit:	Interest Rate	Final Maturity Date	June 30, 2013
City of Oak Grove - Sublease:			
2005 Convention Center	Variable *	2034	\$ 2,007,860
2009 Convention Center	Variable *	2029	3,932,652
Discount			<u>(68,738)</u>
Total Long-Term Debt - Component Unit			<u>\$ 5,871,774</u>

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

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, 2013, the required balance was \$161,750. The City is in compliance with this requirement.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

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				
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	55,000	22,875	77,875	
2019 - 2023	320,000	76,410	396,410	
2024 - 2028	145,000	9,900	154,900	
Total bonds	<u>725,000</u>	<u>221,925</u>	<u>946,925</u>	
Notes				
2014	226,866	6,341	233,207	
Total notes	<u>226,866</u>	<u>6,341</u>	<u>233,207</u>	
Leases				
2014	552,471	300,220	852,691	
2015	572,543	288,557	861,100	
2016	590,665	267,896	858,560	
2017	522,278	246,178	768,455	
2018	540,456	228,610	769,065	
2019 - 2023	2,880,235	857,506	3,737,740	
2024 - 2028	2,105,598	401,338	2,506,936	
2029 - 2033	1,059,971	81,061	1,141,032	
2034 - 2038	69,757	1,279	71,036	
Total leases	<u>8,893,973</u>	<u>2,672,644</u>	<u>11,566,617</u>	
Total Governmental Activities	<u>\$ 9,845,839</u>	<u>\$ 2,900,910</u>	<u>\$ 12,746,749</u>	

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

Business Type Activities - Water Fund			
Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
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	15,690	11,687	27,377
2019 - 2023	89,370	47,515	136,885
2024 - 2028	110,720	26,177	136,897
2029 - 2033	51,330	3,393	54,723
Total bonds	<u>323,560</u>	<u>141,824</u>	<u>465,384</u>
Notes			
2014	26,549	2,382	28,931
2015	26,949	1,982	28,931
2016	27,355	1,577	28,932
2017	27,766	1,165	28,931
2018	28,185	747	28,932
2019 - 2023	28,609	322	28,931
Total notes	<u>165,412</u>	<u>8,175</u>	<u>173,587</u>
Leases			
2014	11,908	1,433	13,341
2015	12,288	1,053	13,341
2016	12,679	662	13,341
2017	13,082	258	13,340
Total lease	<u>49,957</u>	<u>3,406</u>	<u>53,363</u>
Total Water Fund	<u>\$ 538,929</u>	<u>\$ 153,405</u>	<u>\$ 692,334</u>

Business Type Activities - Sewer Fund			
Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
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	186,000	77,260	263,260
2019 - 2023	873,000	257,163	1,130,163
2024 - 2028	560,000	95,326	655,326
2029 - 2033	114,000	5,022	119,022
Total Sewer Fund	<u>\$ 2,395,000</u>	<u>\$ 817,239</u>	<u>\$ 3,212,239</u>

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

Component Unit			
Year Ending June 30	Principal	Interest	Total Debt Service
Leases			
2014	\$ 236,969	\$ 212,719	\$ 449,688
2015	246,919	208,428	455,348
2016	257,072	199,140	456,212
2017	268,070	189,189	457,259
2018	279,183	179,009	458,192
2019 - 2023	1,581,320	725,865	2,307,185
2024 - 2028	1,941,250	397,291	2,338,542
2029 - 2033	1,059,971	81,061	1,141,032
2034 - 2038	69,757	1,279	71,036
Total Component Unit Debt	<u>\$ 5,940,511</u>	<u>\$ 2,193,982</u>	<u>\$ 8,134,494</u>

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, 2013:

Governmental activities	\$155,608
Business-type activities	18,301
Component unit	9,448

12. Employee Retirement System

The City and it's 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.

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, 2013 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, 2013.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

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, 2013	\$ 325,954	100%
June 30, 2012	354,060	100%
June 30, 2011	317,620	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, 2013	\$ 19,664	100%
June 30, 2012	18,612	100%
June 30, 2011	16,740	100%

CERS does not make separate measurements of assets and pension benefit obligations for individual employers. The following table presents certain information regarding the plans status as a whole, derived from actuarial valuations performed as of June 30, 2013 (dollar amounts are in \$1,000's):

	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL	Funded Ratio	Covered Payroll	Underfunded Actuarial Liability as Percentage of Covered Payroll
CERS	\$ 7,438,786	\$ 12,503,082	\$ 5,064,296	59.5%	\$ 2,697,950	187.7%

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 health insurance premiums.

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, 2013

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, 2013.

City of Oak Grove, Kentucky
Notes to Financial Statements – Continued
For the Year Ended June 30, 2013

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, 2013, follows:

	<u>Cash Financing</u>	<u>Debt Assumption</u>	<u>Totals</u>
Note Balance July 1, 2012	\$ -	\$ 2,537,000	\$ 2,537,000
Release by creditors of liability transferred to HWEA	<u>-</u>	<u>142,000</u>	<u>142,000</u>
Note Balance June 30, 2013	<u>\$ -</u>	<u>\$ 2,395,000</u>	<u>\$ 2,395,000</u>

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

Note Receivable:

Within one year	\$ -	\$ 149,000	\$ 149,000
More than one year	<u>-</u>	<u>2,246,000</u>	<u>2,246,000</u>
	<u>\$ -</u>	<u>\$ 2,395,000</u>	<u>\$ 2,395,000</u>

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, 2013

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	\$ 2,071,955	\$ 4,096,127	\$ 6,168,082
Less payments made by Tourism Commission during the fiscal year	64,095	163,475	227,570
Sublease balance - end of year	2,007,860	3,932,652	5,940,512
Unamortized lease discount	-	(68,738)	(68,738)
Sublease balance - end of year	<u>\$ 2,007,860</u>	<u>\$ 3,863,914</u>	<u>\$ 5,871,774</u>

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

Note Receivable	
Within one year	\$ 232,740
More than one year	5,639,034
	<u>\$ 5,871,774</u>

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

Year Ending June 30	Principal	Interest	Total Lease Payments
2014	\$ 236,969	\$ 212,719	\$ 449,688
2015	246,919	208,428	455,348
2016	257,072	199,140	456,212
2017	268,070	189,189	457,259
2018	279,183	179,009	458,192
2019 - 2023	1,581,320	725,865	2,307,185
2024 - 2028	1,941,250	397,291	2,338,542
2029 - 2033	1,059,971	81,061	1,141,032
2034 - 2038	69,757	1,279	71,036
	<u>\$ 5,940,512</u>	<u>\$ 2,193,982</u>	<u>\$ 8,134,494</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 the Financial Statements – Continued
For the Year Ended June 30, 2013

the first 25,831,000 gallons of water needed each month, and an additional \$2.30 per each additional 1000 gallons use each month. The agreement covers a period of 50 years and expires in 2053.

20. Contingencies

Under the terms of the federal and state grants, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements 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 are 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 plants and related equipment to HWEA. At June 30, 2013, the outstanding balance of the debts assumed was \$2,395,000. Although the 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 agreements.

21. Prior Period Adjustment/Adoption of New Accounting Principle

During the fiscal year ended June 30, 2013, the City elected to implement GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Under GASB Statement No. 65, debt issuance costs are expensed when incurred; with the exception of any portion that is a prepayment of insurance. Prior to issuance of this Statement, the accepted accounting practice was to capitalize debt issuance costs and amortize those costs over the life of the outstanding debt. Beginning net position of the governmental activities has been decreased by \$45,240 in order to implement this new accounting principle.

22. Subsequent Events

Management has evaluated subsequent events through October 16, 2014, the date in which the financial statements were available to be issued.

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, 2013

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
Revenues:				
Taxes & licenses	\$ 2,645,680	\$ 2,887,510	\$ 2,772,441	\$ (115,069)
Charges for services	271,400	151,665	154,359	2,694
Grants	381,700	637,880	626,100	(11,780)
Intergovernmental	24,000	24,600	20,632	(3,968)
Interest income	43,000	2,675	49,935	47,260
Miscellaneous	160,000	159,705	163,831	4,126
 Total Revenues	 <u>3,525,780</u>	 <u>3,864,035</u>	 <u>3,787,298</u>	 <u>(76,737)</u>
Expenditures:				
Current:				
General government	703,915	732,470	728,876	3,594
Public safety	1,930,155	1,975,870	1,927,047	48,823
Public works	288,580	213,495	221,692	(8,197)
Parks and recreation	142,075	170,725	169,761	964
Debt Service:				
Principal	684,655	735,025	736,554	(1,529)
Interest and other charges	6,500	13,190	141,898	(128,708)
Debt issuance costs	-	-	139,305	(139,305)
Capital outlays	634,575	930,980	1,403,166	(472,186)
 Total Expenditures	 <u>4,390,455</u>	 <u>4,771,755</u>	 <u>5,468,299</u>	 <u>(696,544)</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>(864,675)</u>	 <u>(907,720)</u>	 <u>(1,681,001)</u>	 <u>(773,281)</u>
Other Financing Sources:				
Sale of property	10,000	7,620	7,623	3
Debt proceeds	380,675	1,269,720	1,879,308	609,588
Debt premiums	-	-	17,305	17,305
Transfers in (out)	625,000	-	51,377	51,377
 Total Other Financing Sources	 <u>1,015,675</u>	 <u>1,277,340</u>	 <u>1,955,613</u>	 <u>678,273</u>
 Net Change in Fund Balance	 <u>151,000</u>	 <u>\$ 369,620</u>	 274,612	 <u>\$ (95,008)</u>
 Fund balances - beginning (As Restated)			 <u>2,400,728</u>	
 Fund balances - ending			 <u>\$ 2,675,340</u>	



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**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 16, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control 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 (2013-1, 2013-2, 2013-3, and 2013-4).

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*.

City of Oak Grove, Kentucky's Response to Findings

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

Purpose of this Report

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

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

Borland Benefield, P.C.
Birmingham, Alabama
October 16, 2014

City of Oak Grove, Kentucky

**Schedule of Findings and Responses
For the Year Ended June 30, 2013**

2013-1 - Lack of Segregation of Duties and Oversight of Accounting Functions Related to Cash

Condition: One or more City employees associated with the custody of cash performs the following: (1) opens bank statements received in the mail, (2) reconciles internal accounting records to bank statements, (3) and records journal entries. These functions were incompatible as they involve both custody of the asset (cash) and the function of accounting for the asset. Additionally, there were no review and approvals of the bank statements and bank reconciliations from an individual outside of that accounting function. This is a repeat finding.

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 and lacked the appropriate review and approval by an individual outside of that accounting function.

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. Additionally, we recommend an individual outside of the accounting function review and approve the bank statements and bank reconciliations.

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

2013-2 - Inconsistencies and Delays in the Performance of Account Reconciliations

Condition: As a result of our audit procedures we found that a considerable number of financial statement accounts were not reconciled timely, accurately or at all. These items included all basic operating accounts such as revenues, expenses, receivables, payables, prepaid assets, and other accruals. This is a repeat finding.

Criteria: The performance of 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: We found that because of employee staff turnover and reassignment of duties, discovery of posting and "mapping" issues within the accounting software and the general time constraints placed on limited staff these basic reconciliations were not performed.

Effect: Unreconciled accounts created opportunities for undetected errors to remain in the accounting records. As a result, numerous audit adjusting journal entries were required to correct these balances. Consequently, the City's financial statement audit was unable to be performed within a reasonable period of time to meet the State of Kentucky's audit filing requirement of February 1 immediately following the fiscal year end.

City of Oak Grove, Kentucky

**Schedule of Findings and Responses
For the Year Ended June 30, 2013**

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

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

2013-3 - Lack of Adequate Controls over Cash Disbursements

Condition: Cash disbursements were found to lack proper supporting documentation and a consistently applied process of approval.

Criteria: All cash disbursements should have proper supporting documentation of payment in accordance with sound internal control policies.

Cause: The City does not adhere to an effective and consistently enforced system of controls for cash disbursements.

Effect: Transactions may be accounted for incorrectly and/or subject to misappropriation.

Recommendation: The City should develop and enforce an internal control policy for maintaining supporting documentation of cash disbursements.

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

2013-4 - Lack of Supporting Documentation For Payroll and Personnel Information

Condition: Payroll transactions were found to lack proper supporting documentation in accordance with sound practices including missing and incomplete timesheets; missing and incomplete personnel data; and lack of approvals of timesheets for certain employees and department supervisors.

Criteria: All employees should have complete and accurate personnel data documented in a personnel file. Additionally, timesheets should be maintained for all employees and contain the proper approvals.

Cause: We found that the City has not consistently documented standard payroll rates and timesheet approvals, nor maintained adequate personnel information.

Effect: Payroll and related transactions may be accounted for incorrectly and/or subject to misappropriation.

Recommendation: The City should develop and enforce an internal control policy for maintaining supporting documentation of payroll rates, approvals, and personnel information.

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

City of Oak Grove, Kentucky

**Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2013**

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.

Recommendation: We recommended 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.

Current Status: Management concurred with the recommendation and has begun to take steps to separate functions and provide oversight where needed. Similar findings are noted in the 2013 audit.

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.

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

Current Status: Management concurred with the recommendation and has begun to take steps to address the issue. Similar findings are noted in the 2013 audit.