

CITY OF OAK GROVE, KENTUCKY

**Financial Statements
and
Supplementary Information**

**For the Year Ended
June 30, 2015**

CITY OF OAK GROVE, KENTUCKY

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CITY OF OAK GROVE, KENTUCKY

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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 discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Oak Grove, Kentucky, as of and for the year ended June 30, 2015, 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 the Oak Grove Tourism 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Oak Grove, Kentucky, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, Schedule of City's Proportionate Share of the Net Pension Liability, Schedule of City Contributions, and notes to the required supplementary information on pages 47 - 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 21 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68. Our opinion is not modified with respect to this matter.



Borland Benefield, P.C.
Birmingham, Alabama
February 3, 2016

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis For the Year Ended June 30, 2015

The City of Oak Grove's (the City) Management's Discussion and Analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position, identify any material deviations from the financial plan, and identify individual fund issues or concerns.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the June 30, 2015 fiscal year by \$8,620,834 (net position). Of the amount, \$324,047 was unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.
- The City's total liabilities at the close of the fiscal year June 30, 2015 were \$13,836,892, a decrease of \$1,112,165 (7%) from the previous fiscal year. This decrease largely reflects payments made on long-term debt including bonds, notes, and capital leases for buildings, land and equipment.
- The City's total net position increased in fiscal year 2015 by \$711,341 or 9% from the previous year.
- As of the close of the current fiscal year, the City's governmental funds reported ending fund balances of \$2,592,837. Of this amount, an amount of \$2,148,569 is available for spending at the government's discretion (unassigned fund balance). This is approximately 49% of total General Fund expenditures for the fiscal year ended June 30, 2015.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a long-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail by providing information about the City's most significant funds.

Reporting on the City as a Whole

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

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis (continued) For the Year Ended June 30, 2015

These two statements report the City's *net position* and changes in them. You can think of the City's net position as one way to measure the City's *financial health* or *financial position*. Over time, *increases* or *decreases* in the City's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors, such as changes in the City's business base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into three activities:

- Governmental Activities – Most of the City's basic services are reported here, including general government, public safety, public works, and parks and recreation. Property taxes, sales taxes, insurance premium taxes, and occupational and license taxes finance most of these activities.
- Business-type Activities – The City's Water and Sewer funds are reported here. Activities of these funds include administration, operation and maintenance of the water fund, and billing and collection activities. The funds also account for the payment of long-term debt principal and interest for the sewer fund debt.
- Component Unit – The City's financial statements include the activities of a separate legal entity, the 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.

Reporting on the City's Funds

The fund financial statements provide detailed information about the City's funds. 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. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. The City's funds 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.

The City 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.

The City 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, see page 47.

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis (continued) For the Year Ended June 30, 2015

Proprietary Funds

When the City charges customers for the services it provides, these services are generally reported in the 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 Funds, which are considered to be major funds of City.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The following table presents a condensed Statement of Net Position as of June 30, 2015 and 2014:

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Assets				
Current and other assets	\$ 12,228,832	\$ 12,553,619	\$ 276,036	\$ 184,670
Capital assets	<u>10,186,544</u>	<u>9,916,880</u>	<u>9,257,749</u>	<u>9,490,057</u>
Total assets	<u>22,415,376</u>	<u>22,470,499</u>	<u>9,533,785</u>	<u>9,674,727</u>
Deferred Outflows of Resources	<u>303,738</u>	<u>388,051</u>	<u>20,460</u>	<u>29,432</u>
Liabilities				
Current and other liabilities	1,409,149	1,450,733	9,397	256,488
Long-term liabilities	<u>12,427,743</u>	<u>13,498,324</u>	<u>5,614,517</u>	<u>5,641,738</u>
Total liabilities	<u>13,836,892</u>	<u>14,949,057</u>	<u>5,623,914</u>	<u>5,898,226</u>
Deferred Inflows of Resources	<u>261,388</u>	<u>-</u>	<u>19,482</u>	<u>-</u>
Net Position				
Net investment in capital assets	7,596,406	7,086,554	3,861,403	3,851,022
Restricted	700,381	1,110,147	72,775	34,310
Unrestricted	<u>324,047</u>	<u>(287,208)</u>	<u>(23,329)</u>	<u>(79,399)</u>
Total net position	<u>\$ 8,620,834</u>	<u>\$ 7,909,493</u>	<u>\$ 3,910,849</u>	<u>\$ 3,805,933</u>

The City's net position increased \$711,341, or 9%, at the 2015 fiscal year-end. At June 30, 2015, cash on hand of \$3,789,771, represented 44% of net position compared to 36% in the prior period. Liabilities include current and long-term debt totaling \$10,689,110, a decrease of \$743,047, or 6%. During the fiscal year, no new debt was incurred by the City.

For more detailed information, see the Statement of Net Position.

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis (continued) For the Year Ended June 30, 2015

Change in Net Position

The following table presents a summary of the revenues and expenses of the total primary government and component unit for the years ended June 30, 2015 and 2014:

	Primary Government		Component Unit	
	2015	2014	2015	2014
Revenues				
Program revenues				
Charges for services	\$ 1,568,336	\$ 1,665,158	\$ 180,302	\$ 108,356
Grants and contributions	633,197	821,553	9,431	12,258
General revenues				
Taxes	3,159,632	3,213,397	1,093,584	1,001,680
Fines and forfeitures	46,519	168,578	-	-
Interest income	11,376	32,494	550	90
Miscellaneous	586,638	714,740	1,012	-
Gain (Loss) on sale of property	31,049	60,250	-	-
Total revenues	<u>6,036,747</u>	<u>6,676,170</u>	<u>1,284,879</u>	<u>1,122,384</u>
Expenses				
General government	1,044,801	1,106,062	-	-
Public safety	2,013,044	2,305,690	-	-
Public works	202,681	308,850	-	-
Parks and recreation	169,832	311,433	-	-
Interest	93,437	32,532	-	-
Business-type activities	1,801,611	1,826,470	-	-
Tourism Commission	-	-	1,179,963	1,187,525
Total expenses	<u>5,325,406</u>	<u>5,891,037</u>	<u>1,179,963</u>	<u>1,187,525</u>
Change in net position	<u>\$ 711,341</u>	<u>\$ 785,133</u>	<u>\$ 104,916</u>	<u>\$ (65,141)</u>

The City's net position increased by \$711,341, or 9%, at the 2015 fiscal year-end. Key elements of this increase are as follows:

- Total revenues were \$6,036,747, a decrease of 10% from the prior year. Program revenues represent 36% of total revenues. Major sources of program revenues include operating and capital grants and contributions and charges for services. General revenues represent the remaining 64% of total revenues. Major sources of general revenues include property taxes, insurance premium taxes, and occupational and license taxes.
- Expenses totaled \$5,325,406, a decrease of 10% from the prior year. Major functions include general government, public safety, and public utilities (business-type) expenses. General government expenses decreased \$61,261, or 6%. Public safety expenses decreased \$292,646, or 13%. And, business-type expenses decreased \$24,859, or 1%.

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis (continued) For the Year Ended June 30, 2015

Consistent revenues, sound budget practices, and a strong financial base allowed the City to fund basic general government expenses, public safety, street projects, repairs, and capital purchases from both unrestricted and restricted sources on hand.

Financial Analysis of the City of Oak Grove's Funds

Governmental Funds

Currently, the City has one major governmental fund, the General Fund. As of the end of the June 30, 2015 fiscal year, the total fund balance of the general fund was \$2,592,837, an increase of \$64,902, or 3%. The unassigned fund balance was \$2,148,569, an increase of \$209,559, or 11%. Unassigned fund balance is intended for availability as working capital and for current spending in accordance with the purposes of the general fund. The remainder of the fund balance, \$407,247, is restricted for debt service, \$13,058, and special projects, \$394,189.

Proprietary Funds

The City has two proprietary funds, Water Fund and Sewer Fund. As of the end of the June 30, 2015 fiscal year, the total net position of the proprietary funds was \$2,832,473, a \$176,818, or 6%, decrease from the prior year. Total operating revenues, consisting of charges for services, were \$1,498,704, an increase of 4% from the prior year. Operating expenses totaled \$1,786,262, a 2% decrease from the prior year. Total non-operating revenue (expense) was \$247,506, a 56% decrease from the prior year.

Budget Reporting

The budget has always been used to encourage spending adherence, ensuring that expenditures do not exceed budget, and therefore complying with a legally adopted budget. The form of the budget historically set forth a "budget-to-actual" comparison statement. The General Fund budget adopted and amended by the City Council for the fiscal year ended June 30, 2015 projected \$3,994,296 in revenues and \$3,698,434 in expenditures. Actual General Fund revenues for the period were \$4,167,150; \$172,854 more than budgeted, while General Fund expenses totaled \$4,347,052; \$648,618 more than budgeted. The City chose to budget conservatively for taxes and license revenues as well as miscellaneous revenues. Higher than expected revenue allowed for additional spending in areas where warranted. Actual expenses for the fiscal year 2015 exceeded budgeted amounts, primarily due to capital expenditures, certain general government expenditures, and debt service.

At times during the fiscal year, the City Council formally amends its budget to more closely match actual revenues and expenditures. A detailed analysis of the variance between actual results and budgeted amounts is included in the Statement of Revenues, Expenditures and Changes in Fund Balance – Balance and Actual-General Fund contained in the Required Supplementary Information section of the accompanying financial statements and is herein incorporated by reference.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, net capital assets of the governmental activities totaled \$8,012,216. Current year additions totaled \$829,704. The majority of the current year additions are construction costs on the Broad Horizons Park totaling \$726,755, or 88% of total governmental activities current year additions. The remaining capital additions for governmental activities included equipment and vehicles.

At June 30, 2015, net capital assets of the business-type activities totaled \$2,174,328. Current year additions totaled \$95,400 for water tank painting and improvements.

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis (continued) For the Year Ended June 30, 2015

Long-Term Debt

At June 30, 2015, long-term debt of the governmental activities totaled \$8,304,570. Current and long-term portion of debt are \$551,609 and \$7,752,961, respectively. The governmental activities did not incur any new debt during the fiscal year. Principal reductions during the year totaled \$538,099.

At June 30, 2015, long-term debt of the business-type activities totaled \$2,384,540. Current and long-term portion of debt are \$191,400 and \$2,193,140, respectively. The business-type activities did not incur any new debt during the fiscal year. Principal reductions during the year totaled \$208,411. A capital lease for equipment was paid off during the fiscal year.

ECONOMIC FACTORS AFFECTING THE CITY OF OAK GROVE AND NEXT YEAR'S BUDGET INFORMATION

Key Revenue Assumptions and Trends for fiscal year 2014-2015

The 2014-2015 fiscal year continued to bring consistent revenues to the City, including taxes and license revenues and charges for services. During the year, the City took strong measures to promote development and growth by reducing fees and improving the review process for developers and builders. In addition, the City invested surplus money into the Board Horizons Business Park by installing all utilities to further attract industrial development.

Key Revenue Assumptions and Trends for fiscal year 2015-2016

Management expects revenues to continue a consistent trend for the 2015-2016 year. Taxes and licenses should meet the budgeted amount. The City's local economy consists of commercial, retail and light industrial businesses adjacent to Fort Campbell, Kentucky with approximately 30,000 active duty military personnel.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Oak Grove Finance Director at the City of Oak Grove, P.O. Box 250, Oak Grove, KY 42262.

CITY OF OAK GROVE, KENTUCKY

**Statement of Net Position
As of June 30, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets:</u>				
Cash and cash equivalents	\$ 1,987,001	\$ 1,395,523	\$ 3,382,524	\$ 82,972
Investments	-	76,740	76,740	-
Receivables, net:				
Accounts/utilities	-	136,267	136,267	-
Taxes and liens	256,194	-	256,194	115,378
Occupational license and franchise fees	91,666	-	91,666	-
Other	-	4,952	4,952	-
Other current assets	37,021	4,367	41,388	4,911
Restricted assets:				
Cash and cash equivalents	407,247	-	407,247	72,775
Investments	-	293,133	293,133	-
Capital assets				
Depreciable, net	6,449,880	2,084,158	8,534,038	7,624,890
Non-depreciable	1,562,336	90,170	1,652,506	1,632,859
Note Receivable - HWEA				
Within one year	-	177,000	177,000	-
More than one year	-	1,911,000	1,911,000	-
Note Receivable - Tourism Commission				
Within one year	252,873	-	252,873	-
More than one year	5,143,473	-	5,143,473	-
Other non-current assets (debt-issuance cost)	54,375	-	54,375	-
Total Assets	<u>\$ 16,242,066</u>	<u>\$ 6,173,310</u>	<u>\$ 22,415,376</u>	<u>\$ 9,533,785</u>
Deferred Outflows of Resources				
Employer contributions subsequent to the measurement date	<u>\$ 262,176</u>	<u>\$ 41,562</u>	<u>\$ 303,738</u>	<u>\$ 20,460</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Statement of Net Position (continued)

As of June 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Liabilities:</u>				
Accounts payable and other current liabilities	\$ 66,475	\$ 168,312	\$ 234,787	\$ 2,038
Accrued liabilities	74,628	15,083	89,711	7,359
Utility deposits	-	282,210	282,210	-
Compensated absences	45,189	-	45,189	-
Liabilities payable from restricted assets:				
Accrued interest	11,000	3,243	14,243	-
Current portion of long-term debt	551,609	191,400	743,009	252,873
Non-current liabilities:				
Due to City of Oak Grove	-	-	-	5,143,473
Bonds payable	565,681	2,193,140	2,758,821	-
Capital leases	7,187,280	-	7,187,280	-
Net pension liability	2,005,752	475,890	2,481,642	218,171
Total Liabilities	<u>\$ 10,507,614</u>	<u>\$ 3,329,278</u>	<u>\$ 13,836,892</u>	<u>\$ 5,623,914</u>
<u>Deferred Inflows of Resources</u>				
Net difference between projected and actual earnings on pension plan investments	<u>\$ 208,267</u>	<u>\$ 53,121</u>	<u>\$ 261,388</u>	<u>\$ 19,482</u>
<u>Net Position:</u>				
Net investment in capital assets	\$ 5,718,618	\$ 1,877,788	\$ 7,596,406	\$ 3,861,403
Restricted - Note 7	407,248	293,133	700,381	72,775
Unrestricted	(337,505)	661,552	324,047	(23,329)
Total Net Position	<u>\$ 5,788,361</u>	<u>\$ 2,832,473</u>	<u>\$ 8,620,834</u>	<u>\$ 3,910,849</u>

See accompanying notes to financial statements.

City of Oak Grove, Kentucky

Statement of Activities
For the Year Ended June 30, 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component Unit
					Governmental Activities	Business-Type Activities		
Primary Government								
Governmental Activities								
General government	\$ 1,044,801	\$ 43,582	\$ 12,384	\$ -	\$ (988,835)	\$ -	\$ (988,835)	\$ -
Public safety	2,013,044	-	342,243	-	(1,670,801)	-	(1,670,801)	-
Public works	202,681	-	196,130	-	(6,551)	-	(6,551)	-
Parks and recreation	169,832	26,050	-	-	(143,782)	-	(143,782)	-
Interest expense	93,437	-	-	-	(93,437)	-	(93,437)	-
Total Governmental Activities	3,523,795	69,632	550,757	-	(2,903,406)	-	(2,903,406)	-
Business-Type Activities:								
Water	1,801,611	1,498,704	-	82,440	-	(220,467)	(220,467)	-
Total Primary Government	\$ 5,325,406	\$ 1,568,336	\$ 550,757	\$ 82,440	\$ (2,903,406)	\$ (220,467)	\$ (3,123,873)	\$ -
Component Unit:								
Tourism Commission	\$ 1,179,963	\$ 180,302	\$ 9,431	\$ -	\$ -	\$ -	\$ -	\$ (990,230)
General Revenues:								
Taxes and related revenues:								
Property taxes					\$ 835,576	\$ -	\$ 835,576	\$ -
Insurance premium taxes					828,212	-	828,212	-
Restaurant taxes					-	-	-	785,388
Hotel/Motel taxes					-	-	-	308,196
Parks and recreation taxes					164,193	-	164,193	-
Occupational and license taxes					843,201	-	843,201	-
Franchise taxes					315,668	-	315,668	-
Other taxes					172,782	-	172,782	-
Fines and forfeitures					46,519	-	46,519	-
Interest income					7,108	4,268	11,376	550
Miscellaneous					333,502	253,136	586,638	1,012
Gain (Loss) on sale of property					28,698	2,351	31,049	-
Transfers					216,106	(216,106)	-	-
Total General Revenues and Transfers					3,791,565	43,649	3,835,214	1,095,146
Change in Net Position					888,159	(176,818)	711,341	104,916
Net Position - Beginning of Year					6,825,835	3,486,245	10,312,080	4,026,124
Prior Period Adjustment					(1,925,633)	(476,954)	(2,402,587)	(220,191)
Net Position - Beginning of Year (Restated)					4,900,202	3,009,291	7,909,493	3,805,933
Net Position - End of Year					\$ 5,788,361	\$ 2,832,473	\$ 8,620,834	\$ 3,910,849

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Balance Sheet
Governmental Funds
As of June 30, 2015

	<u>General Fund</u>
<u>Assets:</u>	
Cash and cash equivalents	\$ 1,987,001
Receivables, Net:	
Taxes and liens	256,194
Occupational license and franchise fees	91,666
Prepaid expense	37,021
Restricted Assets:	
Cash and cash equivalents	<u>407,247</u>
Total Assets	<u>\$ 2,779,129</u>
<u>Liabilities and Fund Balances:</u>	
Liabilities:	
Accounts payable	\$ 66,475
Accrued liabilities	74,628
Compensated absences	<u>45,189</u>
Total Liabilities	<u>186,292</u>
Fund Balance:	
Nonspendable	37,021
Restricted	
Debt service	13,058
Special projects	394,189
Unassigned	<u>2,148,569</u>
Total Fund Balances	<u>2,592,837</u>
Total Liabilities and Fund Balances	<u>\$ 2,779,129</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
For the Year Ended June 30, 2015**

Total fund balance, governmental funds	\$ 2,592,837
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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	8,012,216
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Long-term receivable due from Tourism Commission	5,396,346
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Employer contributions subsequent to the measurement date	262,176
-----------------------------------------------------------	---------

Some liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds balance sheet.

Those liabilities consist of the following:

Long-term debt	(8,304,570)	
Debt issuance costs	54,375	
Accrued interest expense	(11,000)	
Net pension liability	<u>(2,005,752)</u>	(10,266,947)

Net difference between projected and actual earnings on pension plan investments	<u>(208,267)</u>
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Net position - governmental activities	<u>\$ 5,788,361</u>
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See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2015**

	<u>General Fund</u>
<u>Revenues:</u>	
Taxes & licenses	\$ 3,159,632
Charges for services	69,632
Grants	146,779
Fines and forfeitures	46,519
Intergovernmental	403,978
Interest income	7,108
Miscellaneous	<u>333,502</u>
Total Revenues	<u>4,167,150</u>
<u>Expenditures:</u>	
Current:	
General government	883,284
Public safety	1,905,828
Public works	173,826
Parks and recreation	169,832
Debt Service:	
Principal	291,181
Interest and other charges	93,437
Capital Outlays	<u>829,664</u>
Total Expenditures	<u>4,347,052</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(179,902)</u>
<u>Other Financing Sources:</u>	
Sale of property	28,698
Transfers in	<u>216,106</u>
Total Other Financing Sources	<u>244,804</u>
Net Change in Fund Balance	64,902
Fund Balances - Beginning	<u>2,527,935</u>
Fund Balances - Ending	<u>\$ 2,592,837</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the Year Ended June 30, 2015**

Net change in fund balances - total governmental funds: \$ 64,902

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays of \$829,664 exceeded depreciation of \$417,297 in the current period.

412,367

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transaction that are not normally paid with expendable available financial resources. However, expenses and liabilities are reported regardless of when financial resources are available in the statement of activities, which is presented on the accrual basis. The details of this difference are as follows:

Claims and judgments	160,000	
Retirement expenses	<u>(25,953)</u>	134,047

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this difference are as follows:

Principal repayments	291,181	
Premiums and discounts	(3,463)	
Amortization of prepaid insurance	<u>(10,875)</u>	<u>276,843</u>

Change in net position - governmental activities		<u>\$ 888,159</u>
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See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Statement of Net Position
Proprietary Funds
As of June 30, 2015**

	Business-type Activities		
	Water	Sewer	Total
<u>Assets:</u>			
Current Assets:			
Cash and cash equivalents	\$ 1,395,523	\$ -	\$ 1,395,523
Investments	76,740	-	76,740
Receivables, Net:			
Accounts	136,267	-	136,267
Other	4,952	-	4,952
Prepaid insurance	4,367	-	4,367
Due from HWEA - within one year	-	177,000	177,000
Total Current Assets	<u>1,617,849</u>	<u>177,000</u>	<u>1,794,849</u>
Noncurrent Assets:			
Restricted investments	222,801	70,332	293,133
Depreciable assets, net	2,084,158	-	2,084,158
Non-depreciable assets	90,170	-	90,170
Due from HWEA - more than one year	-	1,911,000	1,911,000
Total Noncurrent Assets	<u>2,397,129</u>	<u>1,981,332</u>	<u>4,378,461</u>
Total Assets	<u>\$ 4,014,978</u>	<u>\$ 2,158,332</u>	<u>\$ 6,173,310</u>
 Deferred Outflows of Resources			
Employer contributions subsequent to the measurement date	<u>\$ 41,562</u>	<u>\$ -</u>	<u>\$ 41,562</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Statement of Net Position (continued)

Proprietary Funds

As of June 30, 2015

	Business-type Activities		
	Water	Sewer	Total
<u>Liabilities:</u>			
Current Liabilities:			
Accounts payable	\$ 168,312	\$ -	\$ 168,312
Utility deposits	282,210	-	282,210
Compensated absences	10,815	-	10,815
Accrued salaries	4,268	-	4,268
Accrued interest	3,243	-	3,243
Current portion of long-term debt	14,400	177,000	191,400
Total Current Liabilities	<u>483,248</u>	<u>177,000</u>	<u>660,248</u>
Noncurrent Liabilities:			
Bonds payable	282,140	1,911,000	2,193,140
Net pension liability	<u>475,890</u>	<u>-</u>	<u>475,890</u>
Total Noncurrent Liabilities	<u>758,030</u>	<u>1,911,000</u>	<u>2,669,030</u>
Total Liabilities	<u>\$ 1,241,278</u>	<u>\$ 2,088,000</u>	<u>\$ 3,329,278</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 53,121</u>	<u>\$ -</u>	<u>\$ 53,121</u>
<u>Net Position:</u>			
Net investment in capital assets	\$ 1,877,788	\$ -	\$ 1,877,788
Restricted (See note 7)	222,801	70,332	293,133
Unrestricted	<u>661,552</u>	<u>-</u>	<u>661,552</u>
Total Net Position	<u>\$ 2,762,141</u>	<u>\$ 70,332</u>	<u>\$ 2,832,473</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015**

	Business-type Activities		
	Water	Sewer	Total
<u>Operating Revenues:</u>			
Charges for services - water	\$ 1,457,253	\$ -	\$ 1,457,253
Charges for services - sanitation	41,451	-	41,451
Total Operating Revenues	<u>1,498,704</u>	<u>-</u>	<u>1,498,704</u>
<u>Operating Expenses:</u>			
Personnel services	481,512	-	481,512
Water cost	824,879	-	824,879
Contractual services	89,314	-	89,314
Repairs and maintenance	30,131	-	30,131
Materials and supplies	45,650	-	45,650
Office and administrative	115,606	-	115,606
Depreciation	199,170	-	199,170
Total Operating Expenses	<u>1,786,262</u>	<u>-</u>	<u>1,786,262</u>
Operating Income (Loss)	<u>(287,558)</u>	<u>-</u>	<u>(287,558)</u>
<u>Non-Operating Revenue (Expense):</u>			
Other income	253,136	-	253,136
Intergovernmental	3,100	-	3,100
Interest income	2,742	1,526	4,268
Gain on disposal of property	2,351	-	2,351
Interest expense	(15,349)	-	(15,349)
Total Non-Operating Revenue (Expense)	<u>245,980</u>	<u>1,526</u>	<u>247,506</u>
Increase (Decrease) in Net Position Before Contributions and Transfers	<u>(41,578)</u>	<u>1,526</u>	<u>(40,052)</u>
<u>Capital Contributions and Transfers:</u>			
Customers	79,340	-	79,340
Transfers in (out)	95,400	(311,506)	(216,106)
Total Capital Contributions and Transfers	<u>174,740</u>	<u>(311,506)</u>	<u>(136,766)</u>
Change in Net Position	133,162	(309,980)	(176,818)
Net Position - Beginning	3,105,933	380,312	3,486,245
Prior Period Adjustments	(476,954)	-	(476,954)
Net Position - Beginning (Restated)	<u>2,628,979</u>	<u>380,312</u>	<u>3,009,291</u>
Net Position - Ending	<u>\$ 2,762,141</u>	<u>\$ 70,332</u>	<u>\$ 2,832,473</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015**

	Business-type Activities		
	Water	Sewer	Total
<u>Cash Flows From Operating Activities</u>			
Receipts from customers	\$ 1,573,803	\$ -	\$ 1,573,803
Payments to suppliers	(1,102,849)	-	(1,102,849)
Payments to employees	(466,221)	-	(466,221)
Net cash (used) by operating activities	4,733	-	4,733
<u>Cash Flows From Non-Capital Financing Activities</u>			
Other revenues	253,136	-	253,136
Intergovernmental	3,100	-	3,100
Contributions from customers	79,340	-	79,340
Transfers (to) from other funds	95,400	(311,506)	(216,106)
Net cash provided by non-capital financing activities	430,976	(311,506)	119,470
<u>Cash Flows From Capital and Related Financing Activities</u>			
Proceeds from sale of capital assets	37,313	-	37,313
Principal payments on debt	(50,411)	(158,000)	(208,411)
Acquisition and construction of capital assets	(95,400)	-	(95,400)
Interest paid on debt	(15,666)	-	(15,666)
Net cash (used) by capital and related financing activities	(124,164)	(158,000)	(282,164)
<u>Cash Flows From Investing Activities</u>			
Interest income	2,742	1,526	4,268
Redemption of investments	-	311,506	311,506
Purchase of investments	(1,086)	(1,526)	(2,612)
Principal receipts on note receivable	-	158,000	158,000
Net cash provided by investing activities	1,656	469,506	471,162
Net increase in cash and cash equivalents	313,201	-	313,201
Cash and equivalents, beginning of the year	1,082,322	-	1,082,322
Cash and equivalents, end of the year	\$ 1,395,523	\$ -	\$ 1,395,523

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Statement of Cash Flows (continued)

Proprietary Funds

For the Year Ended June 30, 2015

	Business-type Activities		
	Water	Sewer	Total
Reconciliation of Operating Income (Loss) to Net Cash (Used) by Operating Activities:			
Operating Income (Loss)	\$ (287,558)	\$ -	\$ (287,558)
Adjustments to reconcile operating income (loss) to net cash (used) by operating activities:			
Depreciation	199,170	-	199,170
Pension cost	10,495	-	10,495
Change in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	63,885	-	63,885
Prepaid insurance	16,085	-	16,085
Increase (decrease) in:			
Accounts payable	8,703	-	8,703
Utility deposits	11,215	-	11,215
Compensated absences	7,533	-	7,533
Accrued salaries	(2,737)	-	(2,737)
Due to other fund	(22,058)	-	(22,058)
Net cash (used) by operating activities	<u>\$ 4,733</u>	<u>\$ -</u>	<u>\$ 4,733</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements For the Year Ended June 30, 2015

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, 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 government 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 Oak Grove 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 the 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, 2015, no restaurant and hotel taxes were collected and remitted to the Tourism Commission by the City. Instead, the Tourism Commission collects 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. Additionally, all eligible Tourism Commission employees participate along with all eligible City employees in the same employee benefit plan. 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 other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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 customer or applicant 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 statement. 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 resources 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 recreational 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. For financial reporting purposes, this fund is combined with the General Fund.

The City reports the following proprietary funds:

Water Fund - The Water Fund is used to account for 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.

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

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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 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 assessment. 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's 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 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 financial 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 government 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.

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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.

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.

g. Cash and Cash Equivalents

The City considers all highly liquid investments (including 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 debt 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 receivables 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 column 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 capability 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.

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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:

Building 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.

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 cost, are deferred and amortized over the life of the bonds using straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. 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

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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 limitations 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 law 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 payments of future construction contracts, amounts restricted to payment of future debt service obligations, and amounts restricted for use in street improvements and construction projects.

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

The governmental fund types classify fund balance 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 lately unassigned fund balance.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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 specific purpose). On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

o. Use of Estimates

The City used estimates and assumptions in preparing these financial statements in accordance with generally accepted 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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. It is the employer contributions paid by the City to the County Employees' Retirement System (CERS) subsequent to the measurement date (June 30, 2014), see Note 12.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for this category. It is the net difference between projected and actual earnings on pension plan investments, see Note 12.

q. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Retirement Systems' (KRS) County Employees Retirement System (CERS) Pension Fund (the plan) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2015.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

As of June 30, 2015, the carrying amount of the City's deposits was \$4,159,644 and the bank balance of \$4,084,075 was categorized as follows:

Insured by FDIC	\$ 776,953
Uninsured and collateralized with securities held by the pledging financial institution	<u>3,307,122</u>
Total	<u>\$ 4,084,075</u>

As of June 30, 2015, none of the Tourism Commission's deposits were exposed to custodial credit risk

3. Receivables

As of June 30, 2015 for the City's major receivables, including the applicable allowance for uncollectible accounts were as follows:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Component Unit</u>
Accounts/utilities	\$ -	\$ 173,130	\$ 173,130	\$ -
Taxes and liens	296,275	-	296,275	115,378
Occupational license and franchise fees	91,666	-	91,666	-
Other	<u>-</u>	<u>4,952</u>	<u>4,952</u>	<u>-</u>
Gross Receivables	387,941	178,082	566,023	115,378
Allowance for uncollectible accounts	<u>(40,081)</u>	<u>(36,863)</u>	<u>(76,944)</u>	<u>-</u>
Net receivables	<u>\$ 347,860</u>	<u>\$ 141,219</u>	<u>\$ 489,079</u>	<u>\$ 115,378</u>

4. Investments

Kentucky Revised Statute (KRS 66.480) 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 FDIC or collateralized, to the extent uninsured, by any obligations 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 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 risk. As of June 30, 2015, all of the City's investments were comprised of nonnegotiable bank certificates of deposit. Early withdrawal penalties are considered negligible.

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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, 2015, was \$.255 per \$100, which allows the City to have a tax margin of \$.506 per \$100 on the assessed valuation of \$312,739,274. The City allocated one and on-half cents of the real property tax levy to Parks and Recreation. The personal property tax rate for the year ended June 30, 2015, was \$.186 per \$100, which allows the City to have a tax margin of \$.585 per \$100 on the assessed valuation of \$19,487,313.

6. Stewardship, Compliance and Accountability

For the year ended June 30, 2015, expenditures exceeded appropriations in the following funds/departments. The 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:	
General government	159,067
Debt service - principal	11,585
Debt service - interest and other charges	11,434
Capital outlays	720,454

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2015

7. Restricted Assets

The City held cash and investments that were restricted by debt covenants and assets restricted as to use. These assets consisted of the following at June 30, 2015:

	Cash and Equivalents	Certificates of Deposit	Totals
Governmental Funds			
Roads	\$ 236,745	\$ -	\$ 236,745
Debt service	13,058	-	13,058
Operations and maintenance	<u>157,444</u>	<u>-</u>	<u>157,444</u>
Totals	<u>\$ 407,247</u>	<u>\$ -</u>	<u>\$ 407,247</u>
Proprietary Funds			
Debt service reserve	<u>\$ -</u>	<u>\$ 293,133</u>	<u>\$ 293,133</u>

8. Interfund Transfers

Interfund transfers during the year ended June 30, 2015 were as follows:

Transfers In			Transfers Out		
General Fund	Water Fund	Total	General Fund	Sewer Fund	Total
<u>\$ 311,506</u>	<u>\$ 95,400</u>	<u>\$ 406,906</u>	<u>\$ (95,400)</u>	<u>\$ (311,506)</u>	<u>\$ (406,906)</u>

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2015

9. Capital Assets

Capital assets activity of the City for the year ended June 30, 2015, was as follows:

	Balance June 30, 2014	Additions/ Adjustments	Disposals/ Adjustments	Balance June 30, 2015
Governmental Activities:				
Non-depreciable:				
Land	\$ 1,562,336	\$ -	\$ -	\$ 1,562,336
Depreciable				
Buildings	4,062,032	-	-	4,062,032
Infrastructure	2,111,584	726,755	-	2,838,339
Machinery and equipment	2,381,171	19,950	44,915	2,356,206
Vehicles	1,506,042	82,999	174,427	1,414,614
Total depreciable capital assets	10,060,829	829,704	219,342	10,671,191
Less: accumulated depreciation				
Buildings	(765,605)	(71,283)	-	(836,888)
Infrastructure	(231,976)	(157,383)	-	(389,359)
Machinery and equipment	(1,767,557)	(106,399)	(44,915)	(1,829,041)
Vehicles	(1,254,206)	(86,244)	(174,427)	(1,166,023)
Total accumulated depreciation	(4,019,344)	(421,309)	(219,342)	(4,221,311)
Total depreciable capital assets, net	6,041,485	408,395	-	6,449,880
Total governmental activities capital assets, net	\$ 7,603,821	\$ 408,395	\$ -	\$ 8,012,216

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2015

	Balance June 30, 2014	Additions/ Adjustments	Disposals/ Adjustments	Balance June 30, 2015
Business-type Activities				
Non-depreciable:				
Land	\$ 90,170	\$ -	\$ -	\$ 90,170
Depreciable:				
Buildings	144,594	-	-	144,594
Infrastructure	4,306,372	95,400	-	4,401,772
Machinery and equipment	507,956	-	68,546	439,410
Vehicles	214,433	-	-	214,433
Total depreciable capital assets	5,173,355	95,400	68,546	5,200,209
Less: accumulated depreciation				
Buildings	(44,468)	(4,136)	-	(48,604)
Infrastructure	(2,507,497)	(32,000)	-	(2,539,497)
Machinery and equipment	(184,068)	(163,034)	(33,585)	(313,517)
Vehicles	(214,433)	-	-	(214,433)
Total accumulated depreciation	(2,950,466)	(199,170)	(33,585)	(3,116,051)
Total depreciable capital assets, net	2,222,889	(103,770)	34,961	2,084,158
Total business-type capital assets, net	\$ 2,313,059	\$ (103,770)	\$ 34,961	\$ 2,174,328

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2015

	Balance June 30, 2014	Additions/ Adjustments	Disposals/ Adjustments	Balance June 30, 2015
Component Unit:				
Non-depreciable:				
Land	\$ 1,632,859	\$ -	\$ -	\$ 1,632,859
Depreciable:				
Buildings and improvements	8,602,555	4,791	-	8,607,346
Furniture, fixtures and equipment	377,943	37,264	-	415,207
Vehicles	27,524	-	-	27,524
Total depreciable capital assets	9,008,022	42,055	-	9,050,077
Less: accumulated depreciation				
Buildings and improvements	(910,990)	(227,265)	-	(1,138,255)
Furniture, fixtures and equipment	(212,310)	(47,098)	-	(259,408)
Vehicles	(27,524)	-	-	(27,524)
Total accumulated depreciation	(1,150,824)	(274,363)	-	(1,425,187)
Total depreciable capital assets, net	7,857,198	(232,308)	-	7,624,890
Total component unit capital assets, net	\$ 9,490,057	\$ (232,308)	\$ -	\$ 9,257,749

For the year ended June 30, 2015, depreciation on capital assets was charged to the governmental functions as follows:

Governmental Activities:

General government	\$ 292,101
Public safety	97,537
Public works	27,659
Total depreciation expense	\$ 417,297

Business-type Activities:

Water fund	\$ 199,170
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Component Unit:

Tourism Commission	\$ 232,308
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See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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:			
Buildings	\$ 1,305,046	\$ 75,488	\$ 970,226
Community center	2,000,000	227,047	1,309,711
Convention center (sub-leased to the City of Oak Grove Recreational, Tourist and Convention Commission)	7,000,000	1,138,255	5,456,623
Totals - governmental activities	<u>\$ 10,305,046</u>	<u>\$ 1,440,790</u>	<u>\$ 7,736,560</u>

11. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2015 are as follows:

	June 30, 2014	Additions	Reductions	June 30, 2015	Due Within One Year
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	\$ 675,000	\$ -	\$ 50,000	\$ 625,000	\$ 50,000
Discount	(11,429)	1,055	-	(10,374)	(1,055)
Total Bonds Payable	<u>663,571</u>	<u>1,055</u>	<u>50,000</u>	<u>614,626</u>	<u>48,945</u>
Capital Leases					
KY Bond Corporation Lease Payable:					
Maintenance Garage	1,087,309	-	117,083	970,226	120,000
KY League of Cities Leases Payable:					
Community Center	1,433,809	-	124,097	1,309,712	127,969
2005 Convention Center	1,941,444	-	68,952	1,872,492	71,483
2009 Convention Center	3,762,098	-	177,967	3,584,131	185,620
Net premium/(discount)	(49,025)	2,408	-	(46,617)	(2,408)
Total Capital Leases	<u>8,175,635</u>	<u>2,408</u>	<u>488,099</u>	<u>7,689,944</u>	<u>502,664</u>
Claims and judgments	<u>160,000</u>	<u>-</u>	<u>160,000</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>\$8,999,206</u>	<u>\$ 3,463</u>	<u>\$ 698,099</u>	<u>\$8,304,570</u>	<u>\$ 551,609</u>

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2015

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>	<u>Due Within One Year</u>
Business-type Activities:					
Water Fund:					
US Department of Agriculture Bond	\$ 310,335	\$ -	\$ 13,795	\$ 296,540	\$ 14,400
Trinity Finance - Lease	<u>36,616</u>	<u>-</u>	<u>36,616</u>	<u>-</u>	<u>-</u>
Total Water Fund	<u>346,951</u>	<u>-</u>	<u>50,411</u>	<u>296,540</u>	<u>14,400</u>
Sewer Fund:					
1998 Waterworks Revenue Refunding Bonds	560,000	-	60,000	500,000	75,000
2001 H KY Rural Water Finance Bonds	375,000	-	30,000	345,000	30,000
2002 B KY Rural Water Finance Bonds	<u>1,311,000</u>	<u>-</u>	<u>68,000</u>	<u>1,243,000</u>	<u>72,000</u>
Total Sewer Fund	<u>2,246,000</u>	<u>-</u>	<u>158,000</u>	<u>2,088,000</u>	<u>177,000</u>
Total Business-type Activities	<u>\$2,592,951</u>	<u>\$ -</u>	<u>\$ 208,411</u>	<u>\$2,384,540</u>	<u>\$ 191,400</u>

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>	<u>Due Within One Year</u>
Component Unit:					
2005 Convention Center	\$ 1,941,444	\$ -	\$ 68,952	\$ 1,872,492	\$ 71,483
2009 Convention Center	3,762,098	-	177,967	3,584,131	185,620
Net premium/(discount)	<u>(64,507)</u>	<u>4,230</u>	<u>-</u>	<u>(60,277)</u>	<u>(4,230)</u>
Total Component Unit	<u>\$ 5,639,035</u>	<u>\$ 4,230</u>	<u>\$ 246,919</u>	<u>\$ 5,396,346</u>	<u>\$ 252,873</u>

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2015

Long-term debt payable at June 30, 2015, was comprised of the following:

	Interest Rate	Final Maturity Date	June 30, 2015
Governmental Activities:			
General Obligation Bonds Series 2005	3.00%	2025	\$ 625,000
KY Bond Corporation Lease Payable:			
Buildings	Variable	2022	970,226
KY League of Cities Leases Payable:			
Community Center	Variable *	2024	1,309,712
2005 Convention Center	Variable *	2034	1,872,492
2009 Convention Center	Variable *	2029	3,584,131
Net Bond Discount			(56,991)
Total Governmental Activities			<u>8,304,570</u>
Business-type Activities			
Water Fund:			
US Department of Agriculture Bonds	4.375%	2028	<u>296,540</u>
Sewer Fund:			
1998 Waterworks Revenue Refunding Bonds	3.75% - 4.90%	2021	500,000
2001 H KY Rural Water Finance Bonds	3.125% - 4.50%	2025	345,000
2002 B KY Rural Water Finance Bonds	2.285% - 4.405%	2029	<u>1,243,000</u>
Total Sewer Fund			<u>2,088,000</u>
Total Business-type Activities			<u>2,384,540</u>
Total Long-Term Debt - General Government			<u>\$10,689,110</u>
Component Unit:			
City of Oak Grove - Sublease:			
2005 Convention Center	Variable *	2034	\$ 1,872,492
2009 Convention Center	Variable *	2029	3,584,131
Discount			(60,277)
Total Long-Term Debt - Component Unit			<u>\$ 5,396,346</u>

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

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2015

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 Fund. Remaining revenues may then be used for any lawful purpose.

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 the 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			
2016	\$ 50,000	\$ 27,285	\$ 77,285
2017	55,000	25,185	80,185
2018	55,000	22,875	77,875
2019	60,000	20,565	80,565
2020	60,000	18,045	78,045
2021-2025	345,000	47,700	392,700
Total Bonds	625,000	161,655	786,655
Capital Leases			
2016	505,041	263,436	768,477
2017	522,277	246,178	768,455
2018	540,455	228,610	769,065
2019	556,498	210,273	766,771
2020	575,036	191,523	766,559
2021-2025	2,642,122	661,988	3,304,110
2026-2030	1,881,762	247,396	2,129,158
2031-2034	513,370	30,004	543,374
Total Capital Leases	7,736,561	2,079,408	9,815,969
Total Governmental Activities	\$ 8,361,561	\$ 2,241,063	\$ 10,602,624

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2015

Business-Type Activities - Water Fund			
Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
2016	\$ 14,400	\$ 12,974	\$ 27,374
2017	15,030	12,344	27,374
2018	15,690	11,687	27,377
2019	16,380	11,000	27,380
2020	17,090	10,283	27,373
2021-2025	97,370	39,524	136,894
2026-2030	120,580	16,278	136,858
Total Water Fund	<u>\$ 296,540</u>	<u>\$ 114,090</u>	<u>\$ 410,630</u>

Business-Type Activities - Sewer Fund			
Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
2016	\$ 177,000	\$ 92,630	\$ 269,630
2017	178,000	84,984	262,984
2018	186,000	77,260	263,260
2019	195,000	69,050	264,050
2020	206,000	60,334	266,334
2021-2025	739,000	181,518	920,518
2026-2029	407,000	46,605	453,605
Total Sewer Fund	<u>\$ 2,088,000</u>	<u>\$ 612,381</u>	<u>\$ 2,700,381</u>

Component Unit			
Year Ending June 30	Principal	Interest/ Administrative	Total Debt Service
Capital Leases			
2016	\$ 257,103	\$ 208,245	\$ 465,348
2017	268,070	197,896	465,966
2018	279,183	187,354	466,537
2019	290,898	176,268	467,166
2020	302,929	164,873	467,802
2021-2025	1,716,567	633,507	2,350,074
2026-2030	1,881,762	265,659	2,147,421
2031-2034	460,111	33,814	493,925
Total Component Unit Debt	<u>\$ 5,456,623</u>	<u>\$ 1,867,616</u>	<u>\$ 7,324,239</u>

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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, 2015:

Government activities	\$	82,870
Business-type activities		15,349
Component unit		2,932

12. Employee Retirement System

Plan description:

The City and its Component Unit are participants in the County Employees' Retirement System (CERS), a cost sharing, multi-employer, defined benefit, public employee retirement system. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the state legislature. Under the provision of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided:

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 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:

<u>Service Period</u>	<u>Percent Paid by Insurance Fund</u>
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%

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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 July 1, 2003, earn \$15 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 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.

Contributions:

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 the 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, 2015 the City contributed 17.676% (34.31% 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, 2015. Total contributions to the pension plan from the City and Tourism Commission totaled \$324,198, \$303,738 and \$20,460 respectively, for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At June 30, 2015, a total liability of \$2,699,813 was recognized for the proportionate share of the net pension liability; City at \$2,481,642 and Tourism Commission at \$218,171. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on a projection of the long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the proportion was 0.046944% and 0.097915% for non-hazardous and hazardous employees, respectively. There was no change from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the total pension expense recognized was \$386,323; governmental activities for \$326,007, business-type activities for \$52,056, and Tourism Commission for \$8,260. At June 30, 2015, the reported deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2015

	Hazardous		Non-Hazardous	
	Deferred Outflows of Resources	Deferred Inflows of Inflows	Deferred Outflows of Resources	Deferred Inflows of Inflows
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	-	-	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	115,733	-	165,137
City contributions subsequent to the measurement date	185,546	-	138,652	-
Total	<u>\$ 185,546</u>	<u>\$ 115,733</u>	<u>\$ 138,652</u>	<u>\$ 165,137</u>

Deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date totaling \$324,198 will be recognized as a reduction of the net pension liability in the year June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Hazardous	Non-Hazardous
Year ended June 30:		
2016	\$ 28,933	\$ 41,285
2017	28,933	41,285
2018	28,933	41,285
2019	28,934	41,282
2020	-	-
Thereafter	-	-

Actuarial assumptions:

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30%	8.45%
International equity	22	8.85
Emerging market equity	5	10.50
Private equity	7	1.25
Real estate	5	7.00
Core US fixed income	10	5.25
High yield US fixed income	5	7.25
Non-US fixed income	5	5.50
Commodities	5	7.75
TIPS	5	5.00
Cash	1	3.25
Total	100%	

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

Discount rate:

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of asset over the first four years of the projection period.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate:

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate for non-hazardous and (6.75%) or 1-percentage-point higher (8.75%) than the current rate for hazardous:

	<u>Hazardous</u>		
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	<u>\$ 1,539,404</u>	<u>\$ 1,176,772</u>	<u>\$ 868,867</u>

	<u>Non-Hazardous</u>		
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	<u>\$ 1,963,444</u>	<u>\$ 1,523,041</u>	<u>\$ 1,130,656</u>

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, 2015.

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

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; error and omissions; injury to employees; and natural disasters. The City carries commercial insurance to protect it against these types of risks, including workers' compensation.

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 \$3,267,600 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, 2015 follows:

	<u>Cash Financing</u>	<u>Debt Assumption</u>	<u>Totals</u>
Note Balance July 1, 2014	\$ -	\$ 2,246,000	\$ 2,246,000
Release by creditors of liability transferred to HWEA	-	158,000	158,000
Note Balance June 30, 2015	<u>\$ -</u>	<u>\$ 2,088,000</u>	<u>\$ 2,088,000</u>
Presented on the statement of net position under the following captions:			
Note Receivable:			
Within one year	\$ -	\$ 177,000	\$ 177,000
More than one year	-	1,911,000	1,911,000
	<u>\$ -</u>	<u>\$ 2,088,000</u>	<u>\$ 2,088,000</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.

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.

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

	2005 Lease	2009 Lease	Totals
Sublease balance - beginning of year	\$ 1,941,444	\$ 3,762,098	\$ 5,703,542
Less payments made by Tourism			
Commission during the fiscal year	68,952	177,967	246,919
Sublease balance - end of year	1,872,492	3,584,131	5,456,623
Unamortized lease discount	-	(60,277)	(60,277)
Sublease balance - end of year	<u>\$ 1,872,492</u>	<u>\$ 3,523,854</u>	<u>\$ 5,396,346</u>

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

Note Receivable:

Within one year	\$ 252,873
More than one year	5,143,473
	<u>\$ 5,396,346</u>

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

Year Ending June 30	Principal	Interest/ Administrative	Total Lease Payments
2016	257,103	208,245	465,348
2017	268,070	197,896	465,966
2018	279,183	187,354	466,537
2019	290,898	176,268	467,166
2020	302,929	164,873	467,802
2021-2025	1,716,567	633,507	2,350,074
2026-2030	1,881,762	265,659	2,147,421
2031-2034	460,111	33,814	493,925
	<u>\$ 5,456,623</u>	<u>\$ 1,867,616</u>	<u>\$ 7,324,239</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 the first 25,831,000 gallons of water needed each month, and an additional \$2.30 per each additional 1,000 gallons used each month. The agreement covers a period of 50 years and expires in 2053.

20. Contingencies

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

See independent auditors' report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2015

The City is primary obligor on several loans and financing instruments which were assumed by HWEA during the fiscal year ended June 30, 2008. These debt obligations were assumed by HWEA in connection with the sale by the City of its sewer plant and related equipment to HWEA. At June 30, 2015, the outstanding balance of the debt assumed was \$2,088,000. Although this debt was assumed by HWEA as part of the sale agreement, the City remains primarily liable on the debt instruments and could be liable for the unpaid balance on these debts if HWEA were to default on its agreement.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City, with the following exception. Three related pieces of litigation involving the City are such that an adverse judgment and the cost of legal defense could be substantial. The amount of any contingent liability cannot be determined at this time. The City intends to vigorously defend its position in each lawsuit.

21. Recently Adopted Accounting Standards and Prior Period Adjustments

For the fiscal year ended June 30, 2015, the City adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions and requires entities to report any unfunded pension liabilities on their balance sheet. The objective of Statement 71 is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. In accordance with the adoption of the new accounting standards, a prior period adjustment has been made to the City's beginning net position to record the prior year balance of the deferred outflows of resources of \$388,051 and the net pension liability of \$2,790,638.

22. Subsequent Events

Management has evaluated subsequent events through February 3, 2016, the date 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, 2015**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>				
Taxes and licenses	\$ 3,872,900	\$ 3,046,320	\$ 3,159,632	\$ 113,312
Charges for services	81,000	71,500	69,632	(1,868)
Grants	78,940	141,616	146,779	5,163
Fines and forfeitures	140,000	52,000	46,519	(5,481)
Intergovernmental	382,600	388,000	403,978	15,978
Interest income	15,500	4,550	7,108	2,558
Miscellaneous	289,900	290,310	333,502	43,192
Total Revenues	<u>4,860,840</u>	<u>3,994,296</u>	<u>4,167,150</u>	<u>172,854</u>
<u>Expenditures:</u>				
Current:				
General government	644,380	724,217	883,284	(159,067)
Public safety	2,664,220	2,090,070	1,905,828	184,242
Public works	203,850	207,350	173,826	33,524
Parks and recreation	178,410	205,988	169,832	36,156
Debt Service:				
Principal	261,710	279,596	291,181	(11,585)
Interest	75,055	82,003	93,437	(11,434)
Capital Outlays	<u>403,210</u>	<u>109,210</u>	<u>829,664</u>	<u>(720,454)</u>
Total Expenditures	<u>4,430,835</u>	<u>3,698,434</u>	<u>4,347,052</u>	<u>(648,618)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>430,005</u>	<u>295,862</u>	<u>(179,902)</u>	<u>(475,764)</u>
<u>Other Financing Sources:</u>				
Sale of property	10,000	28,698	28,698	-
Transfers in	<u>-</u>	<u>-</u>	<u>216,106</u>	<u>216,106</u>
Total Other Financing Sources	<u>10,000</u>	<u>28,698</u>	<u>244,804</u>	<u>216,106</u>
Net Change in Fund Balance	<u>\$ 440,005</u>	<u>\$ 324,560</u>	<u>64,902</u>	<u>\$ (259,658)</u>
Fund Balances - beginning			<u>2,527,935</u>	
Fund Balances - ending			<u>\$ 2,592,837</u>	

City of Oak Grove, Kentucky

**Schedules of Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years Ending June 30**

<u>Non-Hazardous</u>	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
City's proportion of the net pension liability (asset)	0.046944%									
City's proportionate share of the net pension liability (asset)	\$ 1,523,041									
City's covered-employee payroll*	1,352,945									
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	112.57%									
Plan fiduciary net position as a percentage of the total pension liability	66.59%									
<u>Hazardous</u>	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
City's proportion of the net pension liability (asset)	0.097915%									
City's proportionate share of the net pension liability (asset)	\$ 1,176,772									
City's covered-employee payroll*	697,834									
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	168.63%									
Plan fiduciary net position as a percentage of the total pension liability	63.34%									

* Employer's covered-payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2014 the measurement period is July 1, 2013 - June 30, 2014

This is the first year of implementation, therefore only current year information is provided.

City of Oak Grove, Kentucky

**Schedules of Required Supplementary Information
Schedule of City Contributions
Last 10 Fiscal Years Ending June 30**

<u>Non-Hazardous</u>	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 138,652									
Contributions in relation to the contractually required contribution	<u>(138,652)</u>									
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered-employee payroll*	\$ 1,303,541									
Contributions as a percentage of covered-employee payroll	10.64%									
<u>Hazardous</u>	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 185,546									
Contributions in relation to the contractually required contribution	<u>(185,546)</u>									
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered-employee payroll*	\$ 736,982									
Contributions as a percentage of covered-employee payroll	25.18%									

* Employer's covered-payroll during the fiscal year is the total payroll to covered employees (not just pensionable payroll). For FY 2015, the fiscal year is the twelve month period beginning after 6/15/2014.

This is the first year of implementation, therefore only current year information is provided.

CITY OF OAK GROVE, KENTUCKY

Notes to Required Supplementary Information For the Year Ended June 30, 2015

Note 1 - Changes of Benefit Terms

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

Note 2 - Changes of Assumption

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2006: The assumptions were updated as the result of an experience study for the five year period ending June 30, 2005.

2007: Amortization bases have been combined and will be amortized over a single 30 year closed period beginning June 30, 2007.

2009: The assumptions were updated as the result of an experience study for the three year period ending June 30, 2008.

2013: The amortization period of the unfunded accrued liability was reset to a closed 30 year period.

Note 3 – Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary increase	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

**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 discretely presented component unit, 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 3, 2016. Our report includes a reference to other auditors who audited the financial statements of the Oak Grove Tourism and Convention Commission (the Tourism Commission), as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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.

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

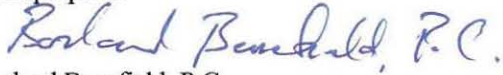
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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
February 3, 2016

City of Oak Grove, Kentucky

**Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2015**

2014-1 - 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 performed the following: (1) opened bank statements received in the mail, (2) reconciled internal accounting records to bank statements, (3) recorded journal entries, and had authorization to perform bank transfers. These functions were incompatible as they involved 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 was a repeat finding.

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

Current Status: Management concurred with the recommendation and has properly separated the functions and now provides oversight where needed.

2014-2 - Inconsistencies and Delays in the Performance of Account Reconciliations

Condition: A considerable number of financial statement accounts were not being 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 was a repeat finding.

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

Current Status: Management concurred with the recommendation and has properly addressed the issue.

2014-3 - Lack of Adequate Controls over Cash Disbursements

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

Recommendation: We recommended that the City should develop and enforce an internal control policy for maintaining supporting documentation of cash disbursements.

Current Status: Management concurred with the recommendation and has properly addressed this issue.

2014-4 - 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. This was a repeat finding.

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

Current Status: Management concurred with the recommendation and has properly addressed this issue.