

CITY OF OAK GROVE, KENTUCKY

**Financial Statements
and
Supplementary Information**

**For the Year Ended
June 30, 2016**

CITY OF OAK GROVE, KENTUCKY

Table of Contents For the Year Ended June 30, 2016

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	9-10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balance	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	15
Proprietary Funds:	
Statement of Net Position	16-17
Statement of Revenues, Expenses and Changes in Net Position	18
Statement of Cash Flows	19-20
Notes to the Financial Statements	21-46
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	47
Schedule of the City's Proportionate Share of the Net Pension Liability	48
Schedule of City Contributions	49
Notes to Required Supplementary information	50-51
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52-53

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2016, 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, 2016, 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 (pages 3-8), Budgetary Comparison Schedule (page 47), Schedule of City's Proportionate Share of the Net Pension Liability (page 48), Schedule of City Contributions (page 49), and notes to the required supplementary information (pages 50-51) 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.

A handwritten signature in blue ink, appearing to read "Borland Benefield P.C.", is written above the typed name.

Borland Benefield, P.C.
Birmingham, Alabama
December 20, 2016

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis For the Year Ended June 30, 2016

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, 2016 fiscal year by \$9,136,175 (total net position). Of the amount, \$805,662 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, 2016 were \$13,365,756, a decrease of \$471,136 (3%) 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 2016 by \$515,341 or 6% from the previous year.
- As of the close of the current fiscal year, the City's governmental funds reported ending fund balances of \$3,004,504. Of this amount, an amount of \$2,421,245 is available for spending at the government's discretion (unassigned fund balance). This is approximately 66% of total General Fund expenditures for the fiscal year ended June 30, 2016.

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, 2016

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 schedule 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, 2016

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 the 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, 2016 and 2015:

	Primary Government		Component Unit	
	2016	2015	2016	2015
Assets				
Current and other assets	\$ 12,407,563	\$ 12,228,832	\$ 468,328	\$ 276,036
Capital assets	9,797,369	10,186,544	8,969,007	9,257,749
Total assets	<u>22,204,932</u>	<u>22,415,376</u>	<u>9,437,335</u>	<u>9,533,785</u>
Deferred Outflows of Resources	<u>658,643</u>	<u>303,738</u>	<u>48,073</u>	<u>20,460</u>
Liabilities				
Current and other liabilities	1,514,798	1,409,149	266,172	262,270
Long-term liabilities	11,850,958	12,427,743	5,120,051	5,361,644
Total liabilities	<u>13,365,756</u>	<u>13,836,892</u>	<u>5,386,223</u>	<u>5,623,914</u>
Deferred Inflows of Resources	<u>361,644</u>	<u>261,388</u>	<u>48,011</u>	<u>19,482</u>
Net Position				
Net investment in capital assets	7,460,655	7,596,406	3,803,823	3,861,403
Restricted	869,858	700,381	155,849	72,775
Unrestricted	805,662	324,047	91,502	(23,329)
Total net position	<u>\$ 9,136,175</u>	<u>\$ 8,620,834</u>	<u>\$ 4,051,174</u>	<u>\$ 3,910,849</u>

During 2016, the City's net position increased \$515,341, or 6%. At June 30, 2016, cash on hand of \$4,389,451, represented 48% of net position compared to 44% in the prior period. Liabilities include current and long-term debt totaling \$9,978,579, a decrease of \$710,531, or 7%. 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, 2016

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, 2016 and 2015:

	Primary Government		Component Unit	
	2016	2015	2016	2015
Revenues				
Program revenues				
Charges for services	\$ 1,521,451	\$ 1,568,336	\$ 208,510	\$ 180,302
Grants and contributions	555,572	633,197	-	9,431
General revenues				
Taxes	3,053,272	3,159,632	1,161,063	1,093,584
Fines and forfeitures	95,712	46,519	-	-
Interest income	3,868	11,376	289	550
Miscellaneous	557,862	586,638	3,883	1,012
Gain (Loss) on sale of property	41,049	31,049	225	-
Total revenues	<u>5,828,786</u>	<u>6,036,747</u>	<u>1,373,970</u>	<u>1,284,879</u>
Expenses				
General government	918,064	1,044,801	-	-
Public safety	2,105,015	2,013,044	-	-
Public works	237,915	202,681	-	-
Parks and recreation	262,641	169,832	-	-
Interest	73,495	93,437	-	-
Business-type activities	1,716,315	1,801,611	-	-
Tourism commission	-	-	1,233,644	1,179,963
Total expenses	<u>5,313,445</u>	<u>5,325,406</u>	<u>1,233,644</u>	<u>1,179,963</u>
Change in net position	<u>515,341</u>	<u>711,341</u>	<u>140,326</u>	<u>104,916</u>
Net position - beginning of year	<u>8,620,834</u>	<u>7,909,493</u>	<u>3,910,848</u>	<u>3,805,932</u>
Net position - end of year	<u>\$ 9,136,175</u>	<u>\$ 8,620,834</u>	<u>\$ 4,051,174</u>	<u>\$ 3,910,848</u>

The City's net position increased by \$515,341, or 6%, during 2016. Key elements of this increase are as follows:

- Total revenues were \$5,828,786, a decrease of 3% 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.

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis (continued) For the Year Ended June 30, 2016

- Expenses totaled \$5,313,445, a decrease of less than 1% from the prior year. Major functions include general government, public safety, and public utilities (business-type) expenses. General government expenses decreased \$126,737, or 12%. Public safety expenses increased \$91,971, or 5%. And, business-type expenses decreased \$85,296, or 5%.

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, 2016 fiscal year, the total fund balance of the general fund was \$3,004,504, an increase of \$411,667, or 16%. The unassigned fund balance was \$2,421,245, an increase of \$272,676, or 13%. Unassigned fund balance is intended for availability as working capital and for current spending in accordance with the purposes of the general fund. Nonspendable fund balance was \$7,363 at year-end. The remainder of the fund balance, \$575,896, is restricted for special projects.

Proprietary Funds

The City has two proprietary funds, Water Fund and Sewer Fund. As of the end of the June 30, 2016 fiscal year, the total net position of the proprietary funds was \$2,851,886, a \$19,413 increase from the prior year. Total operating revenues, consisting of charges for services and other operating revenues, were \$1,699,938, a decrease of 3% from the prior year. Operating expenses totaled \$1,704,150, a 5% decrease from the prior year. Total non-operating revenue (expense) was \$(7,805), a 9% 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, 2016 projected \$4,042,985 in revenues and \$3,990,261 in expenditures. Actual General Fund revenues for the period were \$4,019,465, \$23,520 less than budgeted; while General Fund expenditures totaled \$3,684,271, \$305,990 less than budgeted. The City chose to budget conservatively for taxes and license revenues. Budgeted expenditures for the fiscal year 2016 exceeded actual amounts, primarily due to less capital outlays than expected.

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 Budgetary Comparison Schedule - 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, 2016, net capital assets of the governmental activities totaled \$7,766,400. Current year additions totaled \$140,372. The majority of the current year additions represent infrastructure totaling \$124,500, or 87% of total governmental activities current year additions. The remaining capital additions for governmental activities included equipment and vehicles.

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis (continued) For the Year Ended June 30, 2016

At June 30, 2016, net capital assets of the business-type activities totaled \$2,030,969. Current year additions totaled \$46,208 for vehicles.

Long-Term Debt

At June 30, 2016, long-term debt of the governmental activities totaled \$7,785,439. Current and long-term portion of debt are \$572,561 and \$7,212,878, respectively. The governmental activities did not incur any new debt during the fiscal year. Principal reductions during the year totaled \$519,131.

At June 30, 2016, long-term debt of the business-type activities totaled \$2,193,140. Current and long-term portion of debt are \$193,030 and \$2,000,110, respectively. The business-type activities did not incur any new debt during the fiscal year. Principal reductions during the year totaled \$191,400.

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

Key Revenue Assumptions and Trends for fiscal year 2015-2016

The 2015-2016 fiscal year continued to bring consistent revenues to the City, including taxes and license revenues and charges for services. During the year, the City experienced slight growth in residential housing and added a small number of commercial restaurants. The City is continuing to focus its economic development efforts on commercial growth to increase revenues.

Key Revenue Assumptions and Trends for fiscal year 2016-2017

Management expects revenues to continue a consistent trend for the 2016-2017 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, 2016**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 2,323,058	\$ 1,490,497	\$ 3,813,555	\$ 210,637
Investments	-	77,028	77,028	-
Receivables, net				
Accounts/utilities	-	231,664	231,664	-
Taxes and liens	191,860	-	191,860	98,008
Occupational license and franchise fees	78,952	-	78,952	-
Other	-	13,022	13,022	-
Other current assets	7,363	4,577	11,940	3,834
Restricted assets				
Cash and cash equivalents	575,896	-	575,896	155,849
Investments	-	293,962	293,962	-
Capital assets				
Depreciable, net	6,204,064	1,940,799	8,144,863	7,410,603
Non-depreciable	1,562,336	90,170	1,652,506	1,558,404
Note Receivable - HWEA				
Within one year	-	178,000	178,000	-
More than one year	-	1,733,000	1,733,000	-
Note Receivable - Tourism Commission				
Within one year	262,931	-	262,931	-
More than one year	4,902,253	-	4,902,253	-
Other non-current assets (debt-issuance cost)	43,500	-	43,500	-
Total Assets	\$ 16,152,213	\$ 6,052,719	\$ 22,204,932	\$ 9,437,335
Deferred Outflows of Resources				
Pension related (See Note 11)	\$ 560,782	\$ 97,861	\$ 658,643	\$ 48,073

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Statement of Net Position (continued)
As of June 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Liabilities				
Accounts payable and other current liabilities	\$ 35,054	\$ 262,334	\$ 297,388	\$ 2,200
Accrued liabilities	83,050	21,044	104,094	1,041
Utility deposits	-	279,454	279,454	-
Compensated absences	54,521	-	54,521	-
Liabilities payable from restricted assets:				
Accrued interest	11,000	2,750	13,750	-
Current portion of long-term debt	572,561	193,030	765,591	262,931
Non-current liabilities				
Due to City of Oak Grove	-	-	-	4,902,253
Bonds payable	511,736	2,000,110	2,511,846	-
Capital leases	6,701,142	-	6,701,142	-
Net pension liability	2,195,529	442,441	2,637,970	217,798
Total Liabilities	<u>\$ 10,164,593</u>	<u>\$ 3,201,163</u>	<u>\$ 13,365,756</u>	<u>\$ 5,386,223</u>
Deferred Inflows of Resources				
Pension related (See Note 11)	<u>\$ 264,113</u>	<u>\$ 97,531</u>	<u>\$ 361,644</u>	<u>\$ 48,011</u>
Net Position				
Net investment in capital assets	\$ 5,711,826	\$ 1,748,829	\$ 7,460,655	\$ 3,803,823
Restricted (See Note 6)	575,896	293,962	869,858	155,849
Unrestricted	(3,433)	809,095	805,662	91,502
Total Net Position	<u>\$ 6,284,289</u>	<u>\$ 2,851,886</u>	<u>\$ 9,136,175</u>	<u>\$ 4,051,174</u>

See accompanying notes to financial statements.

City of Oak Grove, Kentucky

**Statement of Activities
For the Year Ended June 30, 2016**

	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	\$ 918,064	\$ 41,300	\$ 11,760	\$ -	\$ (865,004)	\$ -	\$ (865,004)	\$ -
Public safety	2,105,015	-	312,901	-	(1,792,114)	-	(1,792,114)	-
Public works	237,915	-	164,712	-	(73,203)	-	(73,203)	-
Parks and recreation	262,641	26,840	-	-	(235,801)	-	(235,801)	-
Interest expense	73,495	-	-	-	(73,495)	-	(73,495)	-
Total Governmental Activities	<u>3,597,130</u>	<u>68,140</u>	<u>489,373</u>	<u>-</u>	<u>(3,039,617)</u>	<u>-</u>	<u>(3,039,617)</u>	<u>-</u>
Business-Type Activities								
Water	<u>1,716,315</u>	<u>1,699,938</u>	<u>-</u>	<u>66,199</u>	<u>-</u>	<u>49,822</u>	<u>49,822</u>	<u>-</u>
Total Primary Government	<u>\$ 5,313,445</u>	<u>\$ 1,768,078</u>	<u>\$ 489,373</u>	<u>\$ 66,199</u>	<u>\$ (3,039,617)</u>	<u>\$ 49,822</u>	<u>\$ (2,989,795)</u>	<u>\$ -</u>
Component Unit								
Tourism Commission	<u>\$ 1,233,644</u>	<u>\$ 208,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,025,134)</u>
General Revenues								
Taxes and related revenues:								
Property taxes					\$ 851,003	\$ -	\$ 851,003	\$ -
Insurance premium taxes					738,710	-	738,710	-
Hotel/Motel taxes					-	-	-	351,916
Restaurant taxes					-	-	-	809,147
Parks and recreation taxes					159,596	-	159,596	-
Occupational and license taxes					827,456	-	827,456	-
Franchise taxes					302,671	-	302,671	-
Other taxes					173,836	-	173,836	-
Fines and forfeitures					95,712	-	95,712	-
Interest income					1,733	2,135	3,868	289
Miscellaneous					311,235	246,627	557,862	3,883
Gain (Loss) on sale of property					38,824	2,225	41,049	225
Transfers					<u>34,769</u>	<u>(34,769)</u>	<u>-</u>	<u>-</u>
Total General Revenues and Transfers					<u>3,535,545</u>	<u>216,218</u>	<u>3,751,763</u>	<u>1,165,460</u>
Change in Net Position					<u>495,928</u>	<u>266,040</u>	<u>761,968</u>	<u>140,326</u>
Net Position - Beginning of Year					<u>5,788,361</u>	<u>2,832,473</u>	<u>8,620,834</u>	<u>3,910,848</u>
Net Position - End of Year					<u>\$ 6,284,289</u>	<u>\$ 3,098,513</u>	<u>\$ 9,382,802</u>	<u>\$ 4,051,174</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Balance Sheet
Governmental Funds
As of June 30, 2016**

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 2,323,058
Receivables, net	
Taxes and liens	191,860
Occupational license and franchise fees	78,952
Prepaid expense	7,363
Restricted assets	
Cash and cash equivalents	<u>575,896</u>
Total Assets	<u><u>\$ 3,177,129</u></u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 35,054
Accrued liabilities	83,050
Compensated absences	<u>54,521</u>
Total Liabilities	<u>172,625</u>
Fund Balance	
Nonspendable	7,363
Restricted	
Special projects	575,896
Unassigned	<u>2,421,245</u>
Total Fund Balances	<u>3,004,504</u>
Total Liabilities and Fund Balances	<u><u>\$ 3,177,129</u></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, 2016**

Total fund balance, governmental funds	\$ 3,004,504
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet	7,766,400
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Long-term receivable due from Tourism Commission	5,165,184
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Deferred outflows of resources related to pensions are not reported in the governmental fund because the consumption of net position will occur in future periods.	560,782
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Some liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds balance sheet.

Those liabilities consist of the following:

Long-term debt	(7,785,439)	
Debt issuance costs	43,500	
Accrued interest expense	(11,000)	
Net pension liability	<u>(2,195,529)</u>	(9,948,468)

Deferred inflows of resources related to pensions are not reported in the governmental fund because the acquisition of net position will occur in future periods.	<u>(264,113)</u>
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Net position - governmental activities	<u>\$ 6,284,289</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, 2016**

	<u>General Fund</u>
Revenues	
Taxes and licenses	\$ 3,053,272
Charges for services	68,140
Grants	65,523
Fines and forfeitures	95,712
Intergovernmental	423,850
Interest income	1,733
Miscellaneous	<u>311,235</u>
Total Revenues	<u>4,019,465</u>
Expenditures	
Current	
General government	725,510
Public safety	1,997,732
Public works	207,887
Parks and recreation	262,641
Debt Service	
Principal	276,634
Interest and other charges	73,495
Capital Outlays	<u>140,372</u>
Total Expenditures	<u>3,684,271</u>
Excess of Revenues Over Expenditures	<u>335,194</u>
Other Financing Sources	
Sale of property	41,704
Transfers in	<u>34,769</u>
Total Other Financing Sources	<u>76,473</u>
Net Change in Fund Balance	411,667
Fund Balances - Beginning	<u>2,592,837</u>
Fund Balances - Ending	<u><u>\$ 3,004,504</u></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, 2016**

Net change in fund balances - total governmental funds: \$ 411,667

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 depreciation of \$383,308 exceeded capital outlays of \$140,372 in the current period. (242,936)

In the Statement of Activities, only the gain on disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of capital assets disposed in the current period. (5,575)

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	287,201	
Premiums and discounts	3,463	
Amortization of prepaid insurance	<u>(10,875)</u>	279,789

Governmental funds report pension contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of charges in deferred outflows and inflows of resources related to pensions, and investment experience. 52,983

Change in net position - governmental activities \$ 495,928

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Statement of Net Position
Proprietary Funds
As of June 30, 2016**

	Business-type Activities		
	Water	Sewer	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,490,497	\$ -	\$ 1,490,497
Investments	77,028	-	77,028
Receivables, net			
Accounts	231,664	-	231,664
Other	13,022	-	13,022
Prepaid insurance	4,577	-	4,577
Due from HWEA - within one year	-	178,000	178,000
Total Current Assets	<u>1,816,788</u>	<u>178,000</u>	<u>1,994,788</u>
Noncurrent Assets			
Restricted investments	223,559	70,403	293,962
Depreciable assets, net	1,940,799	-	1,940,799
Non-depreciable assets	90,170	-	90,170
Due from HWEA - more than one year	-	1,733,000	1,733,000
Total Noncurrent Assets	<u>2,254,528</u>	<u>1,803,403</u>	<u>4,057,931</u>
Total Assets	<u>\$ 4,071,316</u>	<u>\$ 1,981,403</u>	<u>\$ 6,052,719</u>
Deferred Outflows of Resources			
Pension related	<u>\$ 97,861</u>	<u>\$ -</u>	<u>\$ 97,861</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Statement of Net Position (continued)

Proprietary Funds

As of June 30, 2016

	Business-type Activities		
	Water	Sewer	Total
Liabilities			
Current Liabilities			
Accounts payable	\$ 262,334	\$ -	\$ 262,334
Utility deposits	279,454	-	279,454
Compensated absences	5,896	-	5,896
Accrued salaries	15,148	-	15,148
Accrued interest	2,750	-	2,750
Current portion of long-term debt	15,030	178,000	193,030
Total Current Liabilities	<u>580,612</u>	<u>178,000</u>	<u>758,612</u>
Noncurrent Liabilities			
Bonds payable	267,110	1,733,000	2,000,110
Net pension liability	<u>442,441</u>	<u>-</u>	<u>442,441</u>
Total Noncurrent Liabilities	<u>709,551</u>	<u>1,733,000</u>	<u>2,442,551</u>
Total Liabilities	<u>\$ 1,290,163</u>	<u>\$ 1,911,000</u>	<u>\$ 3,201,163</u>
Deferred Inflows of Resources			
Pension related	<u>\$ 97,531</u>	<u>\$ -</u>	<u>\$ 97,531</u>
Net Position			
Net investment in capital assets	\$ 1,748,829	\$ -	\$ 1,748,829
Restricted (See Note 6)	223,559	70,403	293,962
Unrestricted	<u>809,095</u>	<u>-</u>	<u>809,095</u>
Total Net Position	<u>\$ 2,781,483</u>	<u>\$ 70,403</u>	<u>\$ 2,851,886</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, 2016**

	Business-type Activities		
	Water	Sewer	Total
Operating Revenues			
Charges for services - water	\$ 1,410,961	\$ -	\$ 1,410,961
Charges for services - sanitation	42,350	-	42,350
Other operating revenues	246,627	-	246,627
Total Operating Revenues	<u>1,699,938</u>	<u>-</u>	<u>1,699,938</u>
Operating Expenses			
Personnel services	471,163	-	471,163
Water cost	795,552	-	795,552
Contractual services	36,970	-	36,970
Repairs and maintenance	35,250	-	35,250
Materials and supplies	32,399	-	32,399
Office and administrative	143,249	-	143,249
Depreciation	189,567	-	189,567
Total Operating Expenses	<u>1,704,150</u>	<u>-</u>	<u>1,704,150</u>
Operating Income (Loss)	<u>(4,212)</u>	<u>-</u>	<u>(4,212)</u>
Non-Operating Revenue (Expense)			
Interest income	2,064	71	2,135
Gain on disposal of property	2,225	-	2,225
Interest expense	(12,165)	-	(12,165)
Total Non-Operating Revenue (Expense)	<u>(7,876)</u>	<u>71</u>	<u>(7,805)</u>
Increase (Decrease) in Net Position Before Contributions and Transfers	<u>(12,088)</u>	<u>71</u>	<u>(12,017)</u>
Capital Contributions and Transfers			
Customers	66,199	-	66,199
Transfers in (out)	(34,769)	-	(34,769)
Total Capital Contributions and Transfers	<u>31,430</u>	<u>-</u>	<u>31,430</u>
Change in Net Position	19,342	71	19,413
Net Position - Beginning	<u>2,762,141</u>	<u>70,332</u>	<u>2,832,473</u>
Net Position - Ending	<u>\$ 2,781,483</u>	<u>\$ 70,403</u>	<u>\$ 2,851,886</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016**

	Business-type Activities		
	Water	Sewer	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ 1,593,715	\$ -	\$ 1,593,715
Payments to suppliers	(949,608)	-	(949,608)
Payments to employees	(510,540)	-	(510,540)
Net cash provided by operating activities	<u>133,567</u>	<u>-</u>	<u>133,567</u>
Cash Flows From Non-Capital Financing Activities			
Contributions from customers	66,199	-	66,199
Transfers (to) from other funds	(34,769)	-	(34,769)
Net cash provided by non-capital financing activities	<u>31,430</u>	<u>-</u>	<u>31,430</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds from sale of capital assets	2,225	-	2,225
Principal payments on debt	(14,400)	(177,000)	(191,400)
Acquisition and construction of capital assets	(46,208)	-	(46,208)
Interest paid on debt	(12,658)	-	(12,658)
Net cash (used) by capital and related financing activities	<u>(71,041)</u>	<u>(177,000)</u>	<u>(248,041)</u>
Cash Flows From Investing Activities			
Interest income	2,064	71	2,135
Purchase of investments	(1,046)	(71)	(1,117)
Principal receipts on note receivable	-	177,000	177,000
Net cash provided by investing activities	<u>1,018</u>	<u>177,000</u>	<u>178,018</u>
Net increase in cash and cash equivalents	94,974	-	94,974
Cash and equivalents, beginning of the year	<u>1,395,523</u>	<u>-</u>	<u>1,395,523</u>
Cash and equivalents, end of the year	<u><u>\$ 1,490,497</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,490,497</u></u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Statement of Cash Flows (continued)

Proprietary Funds

For the Year Ended June 30, 2016

	Business-type Activities		
	Water	Sewer	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (4,212)	\$ -	\$ (4,212)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	189,567	-	189,567
Pension	(45,338)	-	(45,338)
Change in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(103,467)	-	(103,467)
Prepaid insurance	(210)	-	(210)
Increase (decrease) in:			
Accounts payable	94,022	-	94,022
Utility deposits	(2,756)	-	(2,756)
Compensated absences	(4,919)	-	(4,919)
Accrued salaries	10,880	-	10,880
Net cash provided by operating activities	\$ 133,567	\$ -	\$ 133,567

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements For the Year Ended June 30, 2016

Note 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:

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.

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 by writing the Commission at P.O. Box 756, Oak Grove, Kentucky.

The City allocates 100% of restaurant and hotel taxes to the Tourism Commission. For the fiscal year ended June 30, 2016, 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.

Basis of Presentation

The government-wide financial statements (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 auditor’s report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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:

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.

The City reports the following proprietary funds:

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.

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.

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.

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

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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 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 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.

Reconciliation of Government-Wide and Fund Financial Statements

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

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

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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.

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.

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.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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.

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 auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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.

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

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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

Based upon the 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.

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.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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.

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 pension activity that qualifies for reporting in this category (see Note 11).

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 pension activity that qualifies for reporting in this category (see Note 11).

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. The plan's investments are reported at fair value.

Note 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, 2016.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 2 – Deposits (continued)

As of June 30, 2016, the carrying amount of the City's deposits was \$4,760,441 and the bank balance of \$4,725,550 was categorized as follows:

Insured by FDIC	\$ 527,143
Uninsured and collateralized with securities held by the pledging financial institution	<u>4,198,407</u>
Total	<u>\$ 4,725,550</u>

As of June 30, 2016, \$120,766 of the Tourism Commission's deposits was exposed to custodial credit risk.

Note 3 - Receivables

As of June 30, 2016 for the City's major receivables, including the applicable allowance for uncollectible accounts were as follows:

	Governmental	Business-Type	Total	Component Unit
Accounts/utilities	\$ -	\$ 250,090	\$ 250,090	\$ -
Taxes and liens	239,651	-	239,651	98,008
Occupational license and franchise fees	78,952	-	78,952	-
Other	<u>-</u>	<u>13,022</u>	<u>13,022</u>	<u>-</u>
Gross Receivables	318,603	263,112	581,715	98,008
Allowance for uncollectible accounts	<u>(47,791)</u>	<u>(18,426)</u>	<u>(66,217)</u>	<u>-</u>
Net receivables	<u>\$ 270,812</u>	<u>\$ 244,686</u>	<u>\$ 515,498</u>	<u>\$ 98,008</u>

Note 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, 2016, all of the City's investments were comprised of nonnegotiable bank certificates of deposit. Early withdrawal penalties are considered negligible.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 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.

Note 6 –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, 2016:

	Cash and Equivalents	Certificates of Deposit	Totals
Governmental Funds			
Roads	\$ 361,208	\$ -	\$ 361,208
Operations and maintenance	<u>214,688</u>	<u>-</u>	<u>214,688</u>
Totals	<u>\$ 575,896</u>	<u>\$ -</u>	<u>\$ 575,896</u>
Proprietary Funds			
Debt service reserve	<u>\$ -</u>	<u>\$ 293,962</u>	<u>\$ 293,962</u>

Note 7 – Interfund Transfers

Interfund transfers during the year ended June 30, 2016 were as follows:

Transfers In			Transfers Out		
General Fund	Water Fund	Total	General Fund	Water Fund	Total
<u>\$ 34,769</u>	<u>\$ -</u>	<u>\$ 34,769</u>	<u>\$ -</u>	<u>\$ 34,769</u>	<u>\$ 34,769</u>

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See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2016

Note 8 – Capital Assets

Capital assets activity of the City for the year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions/ Adjustments	Disposals/ Adjustments	Balance June 30, 2016
Governmental Activities:				
Non-depreciable:				
Land	\$ 1,562,336	\$ -	\$ -	\$ 1,562,336
Depreciable				
Buildings	4,062,032	88,950	2,325	4,148,657
Infrastructure	2,838,339	124,500	-	2,962,839
Machinery and equipment	2,356,206	15,872	115,972	2,256,106
Vehicles	1,414,614	18,622	303,591	1,129,645
Total depreciable capital assets	10,671,191	247,944	421,888	10,497,247
Less: accumulated depreciation				
Buildings	(836,888)	(116,502)	(2,325)	(951,065)
Infrastructure	(389,359)	(74,506)	-	(463,865)
Machinery and equipment	(1,829,041)	(89,776)	(5,520)	(1,913,297)
Vehicles	(1,166,023)	(102,524)	(303,591)	(964,956)
Total accumulated depreciation	(4,221,311)	(383,308)	(311,436)	(4,293,183)
Total depreciable capital assets, net	6,449,880	(135,364)	110,452	6,204,064
Total governmental activities capital assets, net	\$ 8,012,216	\$ (135,364)	\$ 110,452	\$ 7,766,400

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See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2016

Note 8 – Capital Assets (continued)

	<u>Balance June 30, 2015</u>	<u>Additions/ Adjustments</u>	<u>Disposals/ Adjustments</u>	<u>Balance June 30, 2016</u>
Business-type Activities				
Non-depreciable:				
Land	<u>\$ 90,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,170</u>
Depreciable:				
Buildings	144,594	-	-	144,594
Infrastructure	4,401,772	-	-	4,401,772
Machinery and equipment	439,410	34,090	-	473,500
Vehicles	<u>214,433</u>	<u>46,208</u>	<u>97,655</u>	<u>162,986</u>
Total depreciable capital assets	<u>5,200,209</u>	<u>80,298</u>	<u>97,655</u>	<u>5,182,852</u>
Less: accumulated depreciation				
Buildings	(48,604)	(3,402)	-	(52,006)
Infrastructure	(2,539,497)	(148,421)	-	(2,687,918)
Machinery and equipment	(313,517)	(33,124)	-	(346,641)
Vehicles	<u>(214,433)</u>	<u>(4,620)</u>	<u>(63,565)</u>	<u>(155,488)</u>
Total accumulated depreciation	<u>(3,116,051)</u>	<u>(189,567)</u>	<u>(63,565)</u>	<u>(3,242,053)</u>
Total depreciable capital assets, net	<u>2,084,158</u>	<u>(109,269)</u>	<u>34,090</u>	<u>1,940,799</u>
Total business-type capital assets, net	<u>\$ 2,174,328</u>	<u>\$ (109,269)</u>	<u>\$ 34,090</u>	<u>\$ 2,030,969</u>

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See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2016

Note 8 – Capital Assets (continued)

Component Unit	Balance June 30, 2015	Additions/ Adjustments	Disposals/ Adjustments	Balance June 30, 2016
Non-depreciable:				
Land	\$ 1,632,859	\$ -	\$ 74,455	\$ 1,558,404
Depreciable:				
Buildings and improvements	8,607,346	9,636	-	8,616,982
Furniture, fixtures and equipment	415,207	29,870	3,090	441,987
Vehicles	27,524	17,750	27,524	17,750
Total depreciable capital assets	9,050,077	57,256	30,614	9,076,719
Less: accumulated depreciation				
Buildings and improvements	(1,138,255)	(227,848)	-	(1,366,103)
Furniture, fixtures and equipment	(259,408)	(43,104)	(3,090)	(299,422)
Vehicles	(27,524)	(591)	(27,524)	(591)
Total accumulated depreciation	(1,425,187)	(271,543)	(30,614)	(1,666,116)
Total depreciable capital assets, net	7,624,890	(214,287)	-	7,410,603
Total component unit capital assets, net	\$ 9,257,749	\$ (214,287)	\$ 74,455	\$ 8,969,007

For the year ended June 30, 2016, depreciation on capital assets was charged to the governmental functions as follows:

Governmental Activities

General government	\$ 256,872
Public safety	97,604
Public works	28,832
Total depreciation expense	\$ 383,308

Business-type Activities

Water fund	\$ 189,567
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Component Unit

Tourism Commission	\$ 271,543
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See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 9 – 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:

	<u>Original Purchase Price</u>	<u>Accumulated Depreciation</u>	<u>Present Value of Minimum Lease Payments</u>
Governmental Activities			
Buildings	\$ 1,305,046	\$ 108,114	\$ 850,226
Community center	2,000,000	270,972	1,192,509
Convention center (sub-leased to the City of Oak Grove			
Recreational, Tourist and Convention Commission)	<u>7,000,000</u>	<u>1,366,103</u>	<u>5,221,232</u>
Totals - governmental activities	<u>\$ 10,305,046</u>	<u>\$ 1,745,189</u>	<u>\$ 7,263,967</u>

Note 10 – Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2016 are as follows:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	\$ 625,000	\$ -	\$ 50,000	\$ 575,000	\$ 55,000
Discount	<u>(10,374)</u>	<u>-</u>	<u>(1,055)</u>	<u>(9,319)</u>	<u>(1,055)</u>
Total Bonds Payable	<u>614,626</u>	<u>-</u>	<u>48,945</u>	<u>565,681</u>	<u>53,945</u>
Capital Leases					
KY Bond Corporation Lease Payable:					
Maintenance Garage	970,226	-	120,000	850,226	122,083
KY League of Cities Leases Payable:					
Community Center	1,309,712	-	117,203	1,192,509	131,780
2005 Convention Center	1,872,492	-	65,482	1,807,010	74,165
2009 Convention Center	3,584,131	-	169,909	3,414,222	192,996
Net premium/(discount)	<u>(46,617)</u>	<u>-</u>	<u>(2,408)</u>	<u>(44,209)</u>	<u>(2,408)</u>
Total Capital Leases	<u>7,689,944</u>	<u>-</u>	<u>470,186</u>	<u>7,219,758</u>	<u>518,616</u>
Total Governmental Activities	<u>\$8,304,570</u>	<u>\$ -</u>	<u>\$ 519,131</u>	<u>\$7,785,439</u>	<u>\$ 572,561</u>

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2016

Note 10 – Long-Term Liabilities (continued)

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Due Within One Year</u>
Business-type Activities:					
Water Fund:					
US Department of Agriculture Bond	<u>\$ 296,540</u>	<u>\$ -</u>	<u>\$ 14,400</u>	<u>\$ 282,140</u>	<u>\$ 15,030</u>
Sewer Fund:					
1998 Waterworks Revenue Refunding Bonds	500,000	-	75,000	425,000	75,000
2001 H KY Rural Water Finance Bonds	345,000	-	30,000	315,000	30,000
2002 B KY Rural Water Finance Bonds	<u>1,243,000</u>	<u>-</u>	<u>72,000</u>	<u>1,171,000</u>	<u>73,000</u>
Total Sewer Fund	<u>2,088,000</u>	<u>-</u>	<u>177,000</u>	<u>1,911,000</u>	<u>178,000</u>
Total Business-type Activities	<u>\$2,384,540</u>	<u>\$ -</u>	<u>\$ 191,400</u>	<u>\$2,193,140</u>	<u>\$ 193,030</u>
	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Due Within One Year</u>
Component Unit:					
2005 Convention Center	\$ 1,872,492	\$ -	\$ 65,482	\$ 1,807,010	\$ 74,165
2009 Convention Center	3,584,131	-	169,909	3,414,222	192,996
Net premium/(discount)	<u>(60,278)</u>	<u>-</u>	<u>(4,230)</u>	<u>(56,048)</u>	<u>(4,230)</u>
Total Component Unit	<u>\$ 5,396,345</u>	<u>\$ -</u>	<u>\$ 231,161</u>	<u>\$ 5,165,184</u>	<u>\$ 262,931</u>

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See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2016

Note 10 – Long-Term Liabilities (continued)

Long-term debt payable at June 30, 2016, was comprised of the following:

	Interest Rate	Final Maturity Date	June 30, 2016
Governmental Activities:			
General Obligation Bonds Series 2005	3.00%	2025	\$ 575,000
KY Bond Corporation Lease Payable:			
Buildings	Variable	2022	850,226
KY League of Cities Leases Payable:			
Community Center	Variable *	2024	1,192,509
2005 Convention Center	Variable *	2034	1,807,010
2009 Convention Center	Variable *	2029	3,414,222
Net Bond Discount			(53,528)
Total Governmental Activities			<u>7,785,439</u>
Business-type Activities			
Water Fund:			
US Department of Agriculture Bonds	4.375%	2028	<u>282,140</u>
Sewer Fund:			
1998 Waterworks Revenue Refunding Bonds	3.75% - 4.90%	2021	425,000
2001 H KY Rural Water Finance Bonds	3.125% - 4.50%	2025	315,000
2002 B KY Rural Water Finance Bonds	2.285% - 4.405%	2029	<u>1,171,000</u>
Total Sewer Fund			<u>1,911,000</u>
Total Business-type Activities			<u>2,193,140</u>
Total Long-Term Debt - General Government			<u>\$ 9,978,579</u>

	Interest Rate	Final Maturity Date	June 30, 2016
Component Unit:			
City of Oak Grove - Sublease:			
2005 Convention Center	Variable *	2034	\$ 1,807,010
2009 Convention Center	Variable *	2029	3,414,222
Discount			(56,048)
Total Long-Term Debt - Component Unit			<u>\$ 5,165,184</u>

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

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 10 – Long-Term Liabilities (continued)

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				Total Debt
Year Ending June 30	Principal	Interest		Service
Bonds				
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	65,000	15,525		80,525
2022-2025	280,000	32,175		312,175
Total Bonds	575,000	134,370		709,370
Capital Leases				
2017	521,024	253,231		774,255
2018	539,251	231,097		770,348
2019	555,113	212,426		767,539
2020	573,609	193,148		766,757
2021	596,098	172,120		768,218
2022-2026	2,491,407	571,462		3,062,869
2027-2031	1,642,028	188,161		1,830,189
2032-2034	345,437	18,144		363,581
Total Capital Leases	7,263,967	1,839,789		9,103,756
Total Governmental Activities	\$ 7,838,967	\$ 1,974,159	\$	9,813,126

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2016

Note 10 – Long-Term Liabilities (continued)

Business-Type Activities - Water Fund			
Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
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	17,840	9,536	27,376
2022-2026	101,630	35,264	136,894
2027-2030	98,480	11,002	109,482
Total Water Fund	<u>\$ 282,140</u>	<u>\$ 101,116</u>	<u>\$ 383,256</u>

Business-Type Activities - Sewer Fund			
Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
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	216,000	50,996	266,996
2022-2026	619,000	148,450	767,450
2027-2029	311,000	28,677	339,677
Total Sewer Fund	<u>\$ 1,911,000</u>	<u>\$ 519,751</u>	<u>\$ 2,430,751</u>

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See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2016

Note 10 – Long-Term Liabilities (continued)

Year Ending June 30	Component Unit		
	Principal	Interest/ Administrative	Total Debt Service
Capital Leases			
2017	\$ 267,161	\$ 190,767	\$ 457,928
2018	278,340	170,968	449,308
2019	289,887	160,762	450,649
2020	301,887	150,126	452,013
2021	314,733	139,049	453,782
2022-2026	1,781,759	512,140	2,293,899
2027-2031	1,642,028	174,413	1,816,441
2032-2034	345,437	18,144	363,581
Total Component Unit Debt	<u>\$ 5,221,232</u>	<u>\$ 1,516,369</u>	<u>\$ 6,737,601</u>

All remaining general government debt is being liquidated through the City General Fund. Proprietary fund and Component Unit obligations are being liquidated through those funds, respectively. The following interests costs were incurred and expensed during the fiscal year ended June 30, 2016:

Government activities	\$ 73,495
Business-type activities	12,165
Component unit	36,207

Note 11 – Employee Retirement System

Plan description

The City and its Component Unit are participants in the County Employees' Retirement System (CERS), a cost sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. 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 and has the authority to establish and amend benefit provisions. The 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

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, non-hazardous and hazardous employees are grouped into three tiers based on hire date. Tier 1 members are those participants in the plan before September 1, 2008, Tier 2 are those that began participation September 1, 2008 through December 31, 2013 and Tier 3 are those members that began participation on or after January 1, 2014.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 11 – Employee Retirement System (continued)

Non-hazardous members:

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	Minimum 5 years of service and 55 years old Minimum 25 years of service and any age
Tier 2	Participation date	September 1, 2008 to December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Minimum 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Not available

Hazardous members:

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	20 years of service and any age Minimum 5 years of service and 55 years old
	Reduced retirement	Minimum 15 years of service and 50 years old
Tier 2	Participation date	September 1, 2008 to December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 60 years old 25 years of service and any age
	Reduced retirement	Minimum 15 years of service and 50 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 60 years old 25 years of service and any age
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirements are based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for non-service related disability benefits.

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See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2016

Note 11 – Employee Retirement System (continued)

Plan funding

State statute requires active members to contribute a percentage of creditable compensation based on the tier:

<i>Non-hazardous</i>		<i>Hazardous</i>	
	<u>Required Contribution</u>		<u>Required Contribution</u>
Tier 1	5%	Tier 1	8%
Tier 2	5% plus 1% for insurance	Tier 2	8% plus 1% for insurance
Tier 3	5% plus 1% for insurance	Tier 3	8% plus 1% for insurance

Employers contribute at the rate determined by the CERS Board to be necessary for the actuarial soundness of the system, as required by KRS 61.565 and 61.752. The City's required contribution rate was 17.06% for non-hazardous employees and 32.95% for hazardous employees for the year ended June 30, 2016.

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

At June 30, 2016, a total liability of \$2,855,768 was recognized for the proportionate share of the net pension liability; City at \$2,637,970 and Tourism Commission at \$217,798. The net pension liability was measured as of June 30, 2015, 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 the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the proportion was 0.034328% and 0.089884% for non-hazardous and hazardous employees, respectively.

For the year ended June 30, 2016, the total pension expense recognized was \$259,220; City for \$253,844 and Tourism Commission for \$5,376. At June 30, 2016, the reported deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	<u>Deferred Outflows of of Resources</u>	<u>Deferred Inflows of of Inflows</u>
Differences between expected and actual experience	\$ 42,235	\$ -
Changes of assumptions	268,072	-
Net difference between projected and actual earnings on pension plan investments	21,896	-
Changes in proportion and differences between City/Tourism contributions and proportionate share of contributions	-	409,655
City and Tourism contributions subsequent to the measurement date	<u>374,514</u>	<u>-</u>
Total	<u>\$ 706,717</u>	<u>\$ 409,655</u>

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 11 – Employee Retirement System (continued)

Deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date totaling \$374,514 will be recognized as a reduction of the net pension liability in the year June 30, 2017. 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:		
2017	\$ 12,256	\$ (69,905)
2018	12,256	(69,905)
2019	12,255	(37,838)
2020	36,809	26,620
2021	-	-
Thereafter	-	-

Actuarial assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

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See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 11 – Employee Retirement System (continued)

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 2008 through 2013, is outlined in a report dated April 30, 2014. 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
Combined Equity	44%	5.40%
Combined Fixed Income	19	1.50
Real Return (Diversified		
Inflation Strategies)	10	3.50
Real Estate	5	4.50
Absolute Return (Diversified		
Hedge Funds)	10	4.25
Private Equity	10	8.50
Cash Equivalent	2	-0.25
Total	100%	

Discount rate

The discount rate used to measure the total pension liability was 7.50%. 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 28 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.

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See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 11 – Employee Retirement System (continued)

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

The following table presents the net pension liability of the City, calculated using the discount rate selected by the pension system, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Non-hazardous' proportionate share of net pension liability	\$ 1,884,246	\$ 1,475,960	\$ 1,126,299
Hazardous' proportionate share of net pension liability	\$ 1,766,201	\$ 1,379,808	\$ 1,059,674

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the CERS.

Note 12 – 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.

Note 13 – 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, 2016.

Note 14 – 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.

Note 15 – 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.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 16 – 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, 2016 follows:

	<u>Cash Financing</u>	<u>Debt Assumption</u>	<u>Totals</u>
Note Balance July 1, 2015	\$ -	\$ 2,088,000	\$ 2,088,000
Release by creditors of liability transferred to HWEA	-	177,000	177,000
	<u>-</u>	<u>177,000</u>	<u>177,000</u>
 Note Balance June 30, 2016	 <u>\$ -</u>	 <u>\$ 1,911,000</u>	 <u>\$ 1,911,000</u>
 Presented on the statement of net position under the following captions:			
Note Receivable:			
Within one year	\$ -	\$ 178,000	\$ 178,000
More than one year	-	1,733,000	1,733,000
	<u>-</u>	<u>1,733,000</u>	<u>1,733,000</u>
	<u>\$ -</u>	<u>\$ 1,911,000</u>	<u>\$ 1,911,000</u>

Note 17 – 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.

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See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 17 – Note Receivable-Tourism Convention Center (continued)

	<u>2005 Lease</u>	<u>2009 Lease</u>	<u>Totals</u>
Sublease balance - beginning of year	\$ 1,872,492	\$ 3,584,131	\$ 5,456,623
Less payments made by Tourism			
Commission during the fiscal year	<u>65,482</u>	<u>169,909</u>	<u>235,391</u>
Sublease balance - end of year	1,807,010	3,414,222	5,221,232
Unamortized lease discount	<u>-</u>	<u>(56,048)</u>	<u>(56,048)</u>
Sublease balance - end of year	<u>\$ 1,807,010</u>	<u>\$ 3,358,174</u>	<u>\$ 5,165,184</u>

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

Note Receivable:

Within one year	\$ 262,931
More than one year	<u>4,902,253</u>
	<u>\$ 5,165,184</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest/ Administrative</u>	<u>Total Lease Payments</u>
2017	267,161	136,147	403,308
2018	278,340	173,683	452,023
2019	289,887	163,577	453,464
2020	301,887	150,126	452,013
2021	314,733	139,049	453,782
2022-2026	1,781,759	512,139	2,293,898
2027-2031	1,642,028	174,413	1,816,441
2032-2034	<u>345,437</u>	<u>18,144</u>	<u>363,581</u>
	<u>\$ 5,221,232</u>	<u>\$ 1,467,278</u>	<u>\$ 6,688,510</u>

Note 18 - 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.

Note 19 - 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 auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2016

Note 19 – Contingencies (continued)

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, 2016, the outstanding balance of the debt assumed was \$1,911,000. 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. A litigation involving the City is 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.

Note 20 – Subsequent Events

Management has evaluated subsequent events through December 20, 2016, the date the financial statements were available to be issued.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

**Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes and licenses	\$ 3,087,827	\$ 3,099,950	\$ 3,053,272	\$ (46,678)
Charges for services	75,500	70,440	68,140	(2,300)
Grants	63,250	65,250	65,523	273
Fines and forfeitures	50,000	90,000	95,712	5,712
Intergovernmental	377,000	405,300	423,850	18,550
Interest income	5,000	1,500	1,733	233
Miscellaneous	<u>314,845</u>	<u>310,545</u>	<u>311,235</u>	<u>690</u>
Total Revenues	<u>3,973,422</u>	<u>4,042,985</u>	<u>4,019,465</u>	<u>(23,520)</u>
Expenditures				
Current				
General government	652,255	727,030	725,510	1,520
Public safety	2,111,322	2,047,647	1,997,732	49,915
Public works	207,739	230,654	207,887	22,767
Parks and recreation	247,114	246,014	262,641	(16,627)
Debt Service				
Principal	297,969	297,969	276,634	21,335
Interest	90,067	90,067	73,495	16,572
Capital Outlays	<u>346,280</u>	<u>350,880</u>	<u>140,372</u>	<u>210,508</u>
Total Expenditures	<u>3,952,746</u>	<u>3,990,261</u>	<u>3,684,271</u>	<u>305,990</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>20,676</u>	<u>52,724</u>	<u>335,194</u>	<u>282,470</u>
Other Financing Sources				
Sale of property	30,000	27,000	41,704	14,704
Transfers in	<u>-</u>	<u>-</u>	<u>34,769</u>	<u>34,769</u>
Total Other Financing Sources	<u>30,000</u>	<u>27,000</u>	<u>76,473</u>	<u>49,473</u>
Net Change in Fund Balance	<u>\$ 50,676</u>	<u>\$ 79,724</u>	411,667	<u>\$ 331,943</u>
Fund Balances - Beginning			<u>2,592,837</u>	
Fund Balances - Ending			<u>\$ 3,004,504</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>	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
City's proportion of the net pension liability (asset)	0.034328%	0.046944%								
City's proportionate share of the net pension liability (asset)	\$ 1,475,960	\$ 1,523,041								
City's covered-employee payroll*	1,303,541	\$ 1,352,945								
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	113.23%	112.57%								
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.59%								
<u>Hazardous</u>	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
City's proportion of the net pension liability (asset)	0.089884%	0.097915%								
City's proportionate share of the net pension liability (asset)	\$ 1,379,808	\$ 1,176,772								
City's covered-employee payroll*	736,982	\$ 697,834								
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	187.22%	168.63%								
Plan fiduciary net position as a percentage of the total pension liability	57.52%	63.34%								

* Employer's covered-payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2016 the measurement period is July 1, 2014 - June 30, 2015

Fiscal year 2015 is the first year of implementation, therefore information prior to 2015 is not 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>	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 190,689	\$ 138,652								
Contributions in relation to the contractually required contribution	<u>(190,689)</u>	<u>(138,652)</u>								
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
City's covered-employee payroll*	\$ 1,297,242	\$ 1,303,541								
Contributions as a percentage of covered-employee payroll	14.70%	10.64%								
 <u>Hazardous</u>										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 201,987	\$ 185,546								
Contributions in relation to the contractually required contribution	<u>(201,987)</u>	<u>(185,546)</u>								
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
City's covered-employee payroll*	\$ 619,719	\$ 736,982								
Contributions as a percentage of covered-employee payroll	32.59%	25.18%								

* Employer's covered-payroll during the fiscal year is the total payroll to covered employees (not just pensionable payroll).

Fiscal year 2015 is the first year of implementation, therefore information prior to 2015 is not provided.

CITY OF OAK GROVE, KENTUCKY

Notes to Required Supplementary Information For the Year Ended June 30, 2016

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, 2015 listed below:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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CITY OF OAK GROVE, KENTUCKY

Notes to Required Supplementary Information (continued) **For the Year Ended June 30, 2016**

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 2016 and 2017, determined as of July 1, 2015. 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	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

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

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 20, 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, appearing to read "Borland Benefield P.C.", is written over a faint, rectangular stamp.

Borland Benefield, P.C.
Birmingham, Alabama
December 20, 2016