

CITY OF OAK GROVE, KENTUCKY

**Financial Statements
and
Supplementary Information**

**For the Year Ended
June 30, 2017**

CITY OF OAK GROVE, KENTUCKY

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For the Year Ended June 30, 2017**

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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, 2017, 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, 2017, 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 45), Schedule of City's Proportionate Share of the Net Pension Liability (page 46), Schedule of City Contributions (page 47), and notes to the required supplementary information (pages 48-49) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2018, on our consideration of the City of Oak Grove, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Oak Grove, Kentucky's internal control over financial reporting and compliance.



Borland Benefield, P.C.
Birmingham, Alabama
February 14, 2018

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis For the Year Ended June 30, 2017

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, 2017 fiscal year by \$9,378,155 (total net position). Of the amount, \$691,770 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, 2017 were \$12,070,384, a decrease of \$1,295,375 (10%) 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 2017 by \$241,980 or 3% from the previous year.
- As of the close of the current fiscal year, the City's governmental funds reported ending fund balances of \$3,299,859. Of this amount, an amount of \$2,359,345 is available for spending at the government's discretion (unassigned fund balance). This is approximately 63% of total General Fund expenditures for the fiscal year ended June 30, 2017.

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, 2017

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 for 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.

CITY OF OAK GROVE, KENTUCKY

**Management’s Discussion and Analysis (continued)
For the Year Ended June 30, 2017**

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 45.

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, 2017 and 2016:

	Primary Government		Component Unit	
	2017	2016	2017	2016
Assets				
Current and other assets	\$ 10,889,245	\$ 12,407,563	\$ 432,722	\$ 468,328
Capital assets	9,554,844	9,797,369	8,773,612	8,969,007
Total assets	<u>20,444,089</u>	<u>22,204,932</u>	<u>9,206,334</u>	<u>9,437,335</u>
Deferred Outflows of Resources	<u>1,227,567</u>	<u>658,643</u>	<u>122,845</u>	<u>48,073</u>
Liabilities				
Current and other liabilities	1,429,238	1,514,798	7,844	266,172
Long-term liabilities	10,641,146	11,850,958	5,280,457	5,120,051
Total liabilities	<u>12,070,384</u>	<u>13,365,756</u>	<u>5,288,301</u>	<u>5,386,223</u>
Deferred Inflows of Resources	<u>223,117</u>	<u>361,644</u>	<u>35,187</u>	<u>48,011</u>
Net Position				
Net investment in capital assets	7,488,845	7,460,655	3,871,359	3,803,823
Restricted	1,197,540	869,858	218,606	155,849
Unrestricted	691,770	805,662	(84,274)	91,502
Total net position	<u>\$ 9,378,155</u>	<u>\$ 9,136,175</u>	<u>\$ 4,005,691</u>	<u>\$ 4,051,174</u>

During 2017, the City’s net position increased \$241,980, or 3%. At June 30, 2017, cash on hand of \$4,698,767, represented 50% of net position compared to 48% in the prior period. Liabilities include current and long-term debt totaling \$7,832,731, a decrease of \$2,159,598, or 22%. The City was notified that sewer debt totaling \$1,486,000 was refunded by the HWEA in 2015, effectively relieving the City of further liability. 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, 2017**

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, 2017 and 2016:

	Primary Government		Component Unit	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues				
Program revenues				
Charges for services	\$ 1,742,388	\$ 1,768,078	\$ 189,824	\$ 208,510
Grants and contributions	579,581	555,572	-	-
General revenues				
Taxes	3,055,503	3,053,272	1,164,264	1,161,063
Fines and forfeitures	72,709	95,712	-	-
Interest income	4,252	3,868	954	289
Miscellaneous	302,523	311,235	893	3,883
Gain (Loss) on sale of property	19,986	41,049	-	225
Total revenues	<u>5,776,942</u>	<u>5,828,786</u>	<u>1,355,935</u>	<u>1,373,970</u>
Expenses				
General government	949,015	918,064	-	-
Public safety	2,184,221	2,105,015	-	-
Public works	167,915	237,915	-	-
Parks and recreation	306,610	262,641	-	-
Interest	73,870	73,495	-	-
Business-type activities	1,853,331	1,716,315	-	-
Tourism Commission	-	-	1,401,418	1,233,644
Total expenses	<u>5,534,962</u>	<u>5,313,445</u>	<u>1,401,418</u>	<u>1,233,644</u>
Change in net position	<u>241,980</u>	<u>515,341</u>	<u>(45,483)</u>	<u>140,326</u>
Net position - beginning of year	<u>9,136,175</u>	<u>8,620,834</u>	<u>4,051,174</u>	<u>3,910,848</u>
Net position - end of year	<u>\$ 9,378,155</u>	<u>\$ 9,136,175</u>	<u>\$ 4,005,691</u>	<u>\$ 4,051,174</u>

The City's net position increased by \$241,980, or 3%, during 2017. Key elements of this increase are as follows:

- Total revenues were \$5,776,942, a decrease of \$51,844 from the prior year. Program revenues represent 40% of total revenues. Major sources of program revenues include operating and capital grants and contributions and charges for services. General revenues represent the remaining 60% of total revenues. Major sources of general revenues include property taxes, insurance premium taxes, and occupational and license taxes.
- Expenses totaled \$5,534,962, an increase of less than 4% from the prior year. Major functions include general government, public safety, and public utilities (business-type) expenses. General government expenses increased \$30,951, or 3%. Public safety expenses increased \$79,206, or 4%. And, business-type expenses decreased \$137,016, or 8%.

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis (continued) For the Year Ended June 30, 2017

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, 2017 fiscal year, the total fund balance of the general fund was \$3,299,859, an increase of \$295,355, or 10%. The unassigned fund balance was \$2,359,345, a decrease of \$61,900, or 3%. Unassigned fund balance is intended for availability as working capital and for current spending in accordance with the purposes of the general fund. Non-spendable fund balance was \$37,907 at year-end. The remainder of the fund balance, \$902,607, 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, 2017 fiscal year, the total net position of the proprietary funds was \$2,772,119, a \$79,767 decrease from the prior year. Total operating revenues, consisting of charges for services and other operating revenues, were \$1,684,918, a decrease of \$15,020, or 1%, from the prior year. Operating expenses totaled \$1,841,144, a 8% increase from the prior year. Total non-operating revenue (expense) was \$(5,555).

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, 2017 projected \$4,040,225 in revenues and \$4,055,225 in expenditures. Actual General Fund revenues for the period were \$3,988,139, \$52,086 less than budgeted; while General Fund expenditures totaled \$3,723,697, \$331,528 less than budgeted. The City chose to budget conservatively for taxes and license revenues. Budgeted expenditures for the fiscal year 2017 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, 2017, net capital assets of the governmental activities totaled \$7,657,879. Current year additions totaled \$266,242. The majority of the current year additions represent police vehicles. The remaining capital additions for governmental activities included equipment and vehicles.

At June 30, 2017, net capital assets of the business-type activities totaled \$1,896,964. Current year additions totaled \$55,279 for vehicles.

CITY OF OAK GROVE, KENTUCKY

Management's Discussion and Analysis (continued) For the Year Ended June 30, 2017

Long-Term Debt

At June 30, 2017, long-term debt of the governmental activities totaled \$7,212,878. Current and long-term portion of debt are \$590,788 and \$6,622,090, respectively. The governmental activities did not incur any new debt during the fiscal year. Principal reductions during the year totaled \$572,561.

At June 30, 2017, long-term debt of the business-type activities totaled \$617,110. Current and long-term portion of debt are \$95,690 and \$521,420, respectively. The business-type activities did not incur any new debt during the fiscal year. Principal reductions during the year totaled \$1,576,030.

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

Key Revenue Assumptions and Trends for fiscal year 2016-2017

The 2016-2017 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 2017-2018

Management expects revenues to continue a consistent trend for the 2017-2018 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, 2017**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 2,183,331	\$ 1,612,829	\$ 3,796,160	\$ 104,512
Investments	-	50,237	50,237	-
Receivables, net				
Accounts/utilities	-	213,280	213,280	-
Taxes and liens	213,592	-	213,592	105,409
Occupational license and franchise fees	86,918	-	86,918	-
Other	-	2,771	2,771	-
Other current assets	37,907	5,962	43,869	4,195
Restricted assets				
Cash and cash equivalents	902,607	-	902,607	218,606
Investments	-	294,933	294,933	-
Capital assets				
Depreciable, net	6,095,543	1,806,795	7,902,338	7,215,208
Non-depreciable	1,562,336	90,170	1,652,506	1,558,404
Note Receivable - HWEA				
Within one year	-	80,000	80,000	-
More than one year	-	270,000	270,000	-
Note Receivable - Tourism Commission				
Within one year	274,110	-	274,110	-
More than one year	4,628,143	-	4,628,143	-
Other non-current assets (debt-issuance cost)	32,625	-	32,625	-
Total Assets	<u>\$ 16,017,112</u>	<u>\$ 4,426,977</u>	<u>\$ 20,444,089</u>	<u>\$ 9,206,334</u>
Deferred Outflows of Resources				
Pension related (See Note 11)	<u>\$ 1,032,784</u>	<u>\$ 194,783</u>	<u>\$ 1,227,567</u>	<u>\$ 122,845</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Statement of Net Position (continued)
As of June 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Liabilities				
Accounts payable and other current liabilities	\$ 33,304	\$ 286,873	\$ 320,177	\$ 2,258
Accrued liabilities	41,844	19,060	60,904	5,586
Utility deposits	-	309,588	309,588	-
Compensated absences	49,348	-	49,348	-
Liabilities payable from restricted assets:				
Accrued interest	11,000	2,922	13,922	-
Current portion of long-term debt	579,609	95,690	675,299	274,110
Non-current liabilities				
Due to City of Oak Grove	-	-	-	4,628,143
Bonds payable	457,791	521,420	979,211	-
Capital leases	6,164,299	-	6,164,299	-
Net pension liability	2,935,818	561,818	3,497,636	378,204
Total Liabilities	\$ 10,273,013	\$ 1,797,371	\$ 12,070,384	\$ 5,288,301
Deferred Inflows of Resources				
Pension related (See Note 11)	\$ 170,847	\$ 52,270	\$ 223,117	\$ 35,187
Net Position				
Net investment in capital assets	\$ 5,858,990	\$ 1,629,855	\$ 7,488,845	\$ 3,871,359
Restricted (See Note 6)	902,607	294,933	1,197,540	218,606
Unrestricted	(155,561)	847,331	691,770	(84,274)
Total Net Position	\$ 6,606,036	\$ 2,772,119	\$ 9,378,155	\$ 4,005,691

See accompanying notes to financial statements.

City of Oak Grove, Kentucky

**Statement of Activities
For the Year Ended June 30, 2017**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General government	\$ 949,015	\$ 45,310	\$ 14,459	\$ -	\$ (889,246)	\$ -	\$ (889,246)	\$ -
Public safety	2,184,221	-	328,667	-	(1,855,554)	-	(1,855,554)	-
Public works	167,915	-	154,582	-	(13,333)	-	(13,333)	-
Parks and recreation	306,610	12,160	-	-	(294,450)	-	(294,450)	-
Interest expense	73,870	-	-	-	(73,870)	-	(73,870)	-
Total Governmental Activities	<u>3,681,631</u>	<u>57,470</u>	<u>497,708</u>	<u>-</u>	<u>(3,126,453)</u>	<u>-</u>	<u>(3,126,453)</u>	<u>-</u>
Business-Type Activities								
Water	1,853,331	1,684,918	-	81,873	-	(86,540)	(86,540)	-
Total Primary Government	<u>\$ 5,534,962</u>	<u>\$ 1,742,388</u>	<u>\$ 497,708</u>	<u>\$ 81,873</u>	<u>\$ (3,126,453)</u>	<u>\$ (86,540)</u>	<u>\$ (3,212,993)</u>	<u>\$ -</u>
Component Unit								
Tourism Commission	\$ 1,401,418	\$ 189,824	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,211,594)
General Revenues								
Taxes and related revenues:								
Property taxes					\$ 870,985	\$ -	\$ 870,985	\$ -
Insurance premium taxes					703,352	-	703,352	-
Hotel/Motel taxes					-	-	-	334,773
Restaurant taxes					-	-	-	829,491
Parks and recreation taxes					163,009	-	163,009	-
Occupational and license taxes					822,500	-	822,500	-
Franchise taxes					311,327	-	311,327	-
Other taxes					184,330	-	184,330	-
Fines and forfeitures					72,709	-	72,709	-
Interest income					1,879	2,373	4,252	954
Miscellaneous					302,523	-	302,523	893
Gain (Loss) on sale of property					15,586	4,400	19,986	-
Transfers					-	-	-	-
Total General Revenues and Transfers					<u>3,448,200</u>	<u>6,773</u>	<u>3,454,973</u>	<u>1,166,111</u>
Change in Net Position					321,747	(79,767)	241,980	(45,483)
Net Position - Beginning of Year					<u>6,284,289</u>	<u>2,851,886</u>	<u>9,136,175</u>	<u>4,051,174</u>
Net Position - End of Year					<u>\$ 6,606,036</u>	<u>\$ 2,772,119</u>	<u>\$ 9,378,155</u>	<u>\$ 4,005,691</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Balance Sheet
Governmental Funds
As of June 30, 2017

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 2,183,331
Receivables, net	
Taxes and liens	213,592
Occupational license and franchise fees	86,918
Prepaid expense	37,907
Restricted assets	
Cash and cash equivalents	<u>902,607</u>
Total Assets	<u><u>\$ 3,424,355</u></u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 33,304
Accrued liabilities	41,844
Compensated absences	<u>49,348</u>
Total Liabilities	<u>124,496</u>
Fund Balance	
Nonspendable	37,907
Restricted	
Special projects	902,607
Unassigned	<u>2,359,345</u>
Total Fund Balances	<u>3,299,859</u>
Total Liabilities and Fund Balances	<u><u>\$ 3,424,355</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, 2017**

Total fund balance, governmental funds \$ 3,299,859

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. 7,657,879

Long-term receivable due from Tourism Commission 4,902,253

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. 1,032,784

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	(7,201,699)	
Debt issuance costs	32,625	
Accrued interest expense	(11,000)	
Net pension liability	<u>(2,935,818)</u>	(10,115,892)

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. (170,847)

Net position - governmental activities \$ 6,606,036

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, 2017

	<u>General Fund</u>
Revenues	
Taxes and licenses	\$ 3,055,850
Charges for services	57,470
Grants	81,617
Fines and forfeitures	72,709
Intergovernmental	416,091
Interest income	1,879
Miscellaneous	<u>302,523</u>
Total Revenues	<u>3,988,139</u>
Expenditures	
Current	
General government	664,429
Public safety	2,021,559
Public works	139,622
Parks and recreation	249,112
Debt Service	
Principal	308,863
Interest and other charges	73,870
Capital Outlays	<u>266,242</u>
Total Expenditures	<u>3,723,697</u>
Excess of Revenues Over Expenditures	<u>264,442</u>
Other Financing Sources	
Sale of property	<u>30,913</u>
Net Change in Fund Balance	295,355
Fund Balances - Beginning	<u>3,004,504</u>
Fund Balances - Ending	<u>\$ 3,299,859</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, 2017**

Net change in fund balances - total governmental funds: \$ 295,355

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 \$350,606 exceeded capital outlays of \$266,242 in the current period. (84,364)

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 (15,674)

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

Principal repayments	308,863	
Premiums and discounts	3,463	
Amortization of prepaid insurance	(10,875)	301,451

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. (175,021)

Change in net position - governmental activities \$ 321,747

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Statement of Net Position
Proprietary Funds
As of June 30, 2017**

	Business-type Activities		
	Water	Sewer	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,612,829	\$ -	\$ 1,612,829
Investments	50,237	-	50,237
Receivables, net			
Accounts	213,280	-	213,280
Other	2,771	-	2,771
Prepaid insurance	5,962	-	5,962
Due from HWEA - within one year	-	80,000	80,000
Total Current Assets	<u>1,885,079</u>	<u>80,000</u>	<u>1,965,079</u>
Noncurrent Assets			
Restricted investments	224,389	70,544	294,933
Depreciable assets, net	1,806,795	-	1,806,795
Non-depreciable assets	90,170	-	90,170
Due from HWEA - more than one year	-	270,000	270,000
Total Noncurrent Assets	<u>2,121,354</u>	<u>340,544</u>	<u>2,461,898</u>
Total Assets	<u>\$ 4,006,433</u>	<u>\$ 420,544</u>	<u>\$ 4,426,977</u>
Deferred Outflows of Resources			
Pension related	<u>\$ 194,783</u>	<u>\$ -</u>	<u>\$ 194,783</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Statement of Net Position (continued)
 Proprietary Funds
 As of June 30, 2017

	Business-type Activities		
	Water	Sewer	Total
Liabilities			
Current Liabilities			
Accounts payable	\$ 286,873	\$ -	\$ 286,873
Utility deposits	309,588	-	309,588
Compensated absences	3,341	-	3,341
Accrued salaries	15,719	-	15,719
Accrued interest	2,922	-	2,922
Current portion of long-term debt	15,690	80,000	95,690
Total Current Liabilities	<u>634,133</u>	<u>80,000</u>	<u>714,133</u>
Noncurrent Liabilities			
Bonds payable	251,420	270,000	521,420
Net pension liability	561,818	-	561,818
Total Noncurrent Liabilities	<u>813,238</u>	<u>270,000</u>	<u>1,083,238</u>
Total Liabilities	<u>\$ 1,447,371</u>	<u>\$ 350,000</u>	<u>\$ 1,797,371</u>
Deferred Inflows of Resources			
Pension related	<u>\$ 52,270</u>	<u>\$ -</u>	<u>\$ 52,270</u>
Net Position			
Net investment in capital assets	\$ 1,629,855	\$ -	\$ 1,629,855
Restricted (See Note 6)	224,389	70,544	294,933
Unrestricted	<u>847,331</u>	<u>-</u>	<u>847,331</u>
Total Net Position	<u>\$ 2,701,575</u>	<u>\$ 70,544</u>	<u>\$ 2,772,119</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, 2017**

	Business-type Activities		
	Water	Sewer	Total
Operating Revenues			
Charges for services - water	\$ 1,402,156	\$ -	\$ 1,402,156
Charges for services - sanitation	43,042	-	43,042
Other operating revenues	<u>239,720</u>	<u>-</u>	<u>239,720</u>
Total Operating Revenues	<u>1,684,918</u>	<u>-</u>	<u>1,684,918</u>
Operating Expenses			
Personnel services	523,389	-	523,389
Water cost	867,023	-	867,023
Contractual services	49,163	-	49,163
Repairs and maintenance	13,419	-	13,419
Materials and supplies	105,601	-	105,601
Office and administrative	93,266	-	93,266
Depreciation	<u>189,283</u>	<u>-</u>	<u>189,283</u>
Total Operating Expenses	<u>1,841,144</u>	<u>-</u>	<u>1,841,144</u>
Operating Income (Loss)	<u>(156,226)</u>	<u>-</u>	<u>(156,226)</u>
Non-Operating Revenue (Expense)			
Interest income	2,232	141	2,373
Gain on disposal of property	4,400	-	4,400
Interest expense	<u>(12,187)</u>	<u>-</u>	<u>(12,187)</u>
Total Non-Operating Revenue (Expense)	<u>(5,555)</u>	<u>141</u>	<u>(5,414)</u>
Increase (Decrease) in Net Position Before Contributions and Transfers	<u>(161,781)</u>	<u>141</u>	<u>(161,640)</u>
Capital Contributions and Transfers			
Customers	<u>81,873</u>	<u>-</u>	<u>81,873</u>
Change in Net Position	(79,908)	141	(79,767)
Net Position - Beginning	<u>2,781,483</u>	<u>70,403</u>	<u>2,851,886</u>
Net Position - Ending	<u>\$ 2,701,575</u>	<u>\$ 70,544</u>	<u>\$ 2,772,119</u>

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017**

	Business-type Activities		
	Water	Sewer	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ 1,743,687	\$ -	\$ 1,743,687
Payments to suppliers	(1,105,318)	-	(1,105,318)
Payments to employees	(548,179)	-	(548,179)
Net cash provided by operating activities	<u>90,190</u>	<u>-</u>	<u>90,190</u>
Cash Flows From Non-Capital Financing Activities			
Contributions from customers	<u>81,873</u>	<u>-</u>	<u>81,873</u>
Net cash provided by non-capital financing activities	<u>81,873</u>	<u>-</u>	<u>81,873</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds from sale of capital assets	4,400	-	4,400
Principal payments on debt	(15,030)	(1,561,000)	(1,576,030)
Acquisition and construction of capital assets	(55,279)	-	(55,279)
Interest paid on debt	(12,015)	-	(12,015)
Net cash (used) by capital and related financing activities	<u>(77,924)</u>	<u>(1,561,000)</u>	<u>(1,638,924)</u>
Cash Flows From Investing Activities			
Interest income	2,232	141	2,373
Redemption of investments	25,961	(141)	25,820
Principal receipts on note receivable	<u>-</u>	<u>1,561,000</u>	<u>1,561,000</u>
Net cash provided by investing activities	<u>28,193</u>	<u>1,561,000</u>	<u>1,589,193</u>
Net increase in cash and cash equivalents	122,332	-	122,332
Cash and equivalents, beginning of the year	<u>1,490,497</u>	<u>-</u>	<u>1,490,497</u>
Cash and equivalents, end of the year	<u>\$ 1,612,829</u>	<u>\$ -</u>	<u>\$ 1,612,829</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, 2017

	Business-type Activities		
	Water	Sewer	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (156,226)	\$ -	\$ (156,226)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	189,283	-	189,283
Pension	(22,806)	-	(22,806)
Change in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	28,635	-	28,635
Prepaid insurance	(1,385)	-	(1,385)
Increase (decrease) in:			
Accounts payable	24,539	-	24,539
Utility deposits	30,134	-	30,134
Compensated absences	(2,555)	-	(2,555)
Accrued salaries	571	-	571
Net cash provided by operating activities	\$ 90,190	\$ -	\$ 90,190

See accompanying notes to financial statements.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements For the Year Ended June 30, 2017

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, 2017, 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, 2017

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), see Note 15. 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.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

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

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.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

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 10).

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 10).

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, 2017.

As of June 30, 2017, the carrying amount of the City's deposits was \$5,043,937 and the bank balance of \$5,103,507 was categorized as follows:

Insured by FDIC	\$	27,143
Uninsured and collateralized with securities held by the pledging financial institution		<u>5,076,364</u>
Total	\$	<u>5,103,507</u>

As of June 30, 2017, carrying amount of the Tourism Commission's deposits was \$323,118 and the bank balance was \$329,501. Of the Tourism Commission's bank balance, \$329,501 was covered by Federal Deposit Insurance.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2017

Note 3 - Receivables

As of June 30, 2017 for the City's major receivables, including the applicable allowance for uncollectible accounts were as follows:

	Governmental	Business Type	Total	Component Unit
Accounts/utilities	\$ -	\$ 227,524	\$ 227,524	\$ -
Taxes and liens	260,423	-	260,423	105,409
Occupational license and franchise fees	86,918	-	86,918	-
Other	-	2,771	2,771	-
Gross Receivables	347,341	230,295	577,636	105,409
Allowance for uncollectible accounts	(46,831)	(14,244)	(61,075)	-
Net receivables	<u>\$ 300,510</u>	<u>\$ 216,051</u>	<u>\$ 516,561</u>	<u>\$ 105,409</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, 2017, all of the City's investments were comprised of nonnegotiable bank certificates of deposit. Early withdrawal penalties are considered negligible.

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.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

**Notes to the Financial Statements (continued)
For the Year Ended June 30, 2017**

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, 2017:

	Cash and Equivalents	Certificates of Deposit	Totals
Governmental Funds			
Roads	\$ 516,187	\$ -	\$ 516,187
Operations and maintenance	<u>386,420</u>	<u>-</u>	<u>386,420</u>
Totals	<u>\$ 902,607</u>	<u>\$ -</u>	<u>\$ 902,607</u>
Proprietary Funds			
Debt service reserve	<u>\$ -</u>	<u>\$ 294,933</u>	<u>\$ 294,933</u>

Note 7 – Capital Assets

Capital assets activity of the City for the year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions/ Adjustments	Disposals/ Adjustments	Balance June 30, 2017
Governmental Activities:				
Non-depreciable:				
Land	<u>\$ 1,562,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,562,336</u>
Depreciable				
Buildings	4,148,657	-	20,081	4,128,576
Infrastructure	2,962,839	17,712	-	2,980,551
Machinery and equipment	2,256,106	-	11,828	2,244,278
Vehicles	<u>1,129,645</u>	<u>266,242</u>	<u>463,159</u>	<u>932,728</u>
Total depreciable capital assets	<u>10,497,247</u>	<u>283,954</u>	<u>495,068</u>	<u>10,286,133</u>
Less: Accumulated depreciation				
Buildings	(951,065)	(115,280)	(4,650)	(1,061,695)
Infrastructure	(463,865)	(75,067)	2,868	(541,800)
Machinery and equipment	(1,913,297)	(64,899)	(8,548)	(1,969,648)
Vehicles	<u>(964,956)</u>	<u>(97,235)</u>	<u>(444,744)</u>	<u>(617,447)</u>
Total accumulated depreciation	<u>(4,293,183)</u>	<u>(352,481)</u>	<u>(455,074)</u>	<u>(4,190,590)</u>
Total depreciable capital assets, net	<u>6,204,064</u>	<u>(68,527)</u>	<u>39,994</u>	<u>6,095,543</u>
Total governmental activities capital assets, net	<u>\$ 7,766,400</u>	<u>\$ (68,527)</u>	<u>\$ 39,994</u>	<u>\$ 7,657,879</u>

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2017

Note 7 – Capital Assets (continued)

	Balance June 30, 2016	Additions/ Adjustments	Disposals/ Adjustments	Balance June 30, 2017
Business-type Activities				
Non-depreciable:				
Land	\$ 90,170	\$ -	\$ -	\$ 90,170
Depreciable:				
Buildings	144,594	27,016	-	171,610
Infrastructure	4,401,772	-	-	4,401,772
Machinery and equipment	473,500	-	157,024	316,476
Vehicles	162,986	28,263	43,806	147,443
Total depreciable capital assets	<u>5,182,852</u>	<u>55,279</u>	<u>200,830</u>	<u>5,037,301</u>
Less: Accumulated depreciation				
Buildings	(52,006)	(3,223)	-	(55,229)
Infrastructure	(2,687,918)	(144,735)	-	(2,832,653)
Machinery and equipment	(346,641)	(28,315)	(157,024)	(217,932)
Vehicles	(155,488)	(13,010)	(43,806)	(124,692)
Total accumulated depreciation	<u>(3,242,053)</u>	<u>(189,283)</u>	<u>(200,830)</u>	<u>(3,230,506)</u>
Total depreciable capital assets, net	<u>1,940,799</u>	<u>(134,004)</u>	<u>-</u>	<u>1,806,795</u>
Total business-type capital assets, net	<u>\$ 2,030,969</u>	<u>\$ (134,004)</u>	<u>\$ -</u>	<u>\$ 1,896,965</u>
	Balance June 30, 2016	Additions/ Adjustments	Disposals/ Adjustments	Balance June 30, 2017
Component Unit				
Non-depreciable:				
Land	\$ 1,558,404	\$ -	\$ -	\$ 1,558,404
Depreciable:				
Buildings and improvements	8,616,982	69,905	-	8,686,887
Furniture, fixtures and equipment	441,987	8,554	-	450,541
Vehicles	17,750	-	-	17,750
Total depreciable capital assets	<u>9,076,719</u>	<u>78,459</u>	<u>-</u>	<u>9,155,178</u>
Less: Accumulated depreciation				
Buildings and improvements	(1,366,103)	(228,787)	-	(1,594,890)
Furniture, fixtures and equipment	(299,423)	(41,516)	-	(340,939)
Vehicles	(591)	(3,550)	-	(4,141)
Total accumulated depreciation	<u>(1,666,117)</u>	<u>(273,853)</u>	<u>-</u>	<u>(1,939,970)</u>
Total depreciable capital assets, net	<u>7,410,602</u>	<u>(195,394)</u>	<u>-</u>	<u>7,215,208</u>
Total component unit capital assets, net	<u>\$ 8,969,006</u>	<u>\$ (195,394)</u>	<u>\$ -</u>	<u>\$ 8,773,612</u>

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

**Notes to the Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 7 – Capital Assets (continued)

For the year ended June 30, 2017, depreciation on capital assets was charged to the governmental functions as follows:

Governmental Activities	
General government	\$ 114,903
Public safety	152,983
Public works	27,097
Parks and recreation	57,498
Total depreciation expense	<u>\$ 352,481</u>
Business-type Activities	
Water fund	<u>\$ 189,283</u>
Component Unit	
Tourisim Commission	<u>\$ 273,853</u>

Note 8 – Assets Under Capital Lease

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

	Original Purchase Price	Accumulated Depreciation	Present Value of Minimum Lease Payments
Governmental Activities			
Buildings	\$ 1,305,046	\$ 140,741	\$ 850,226
Community center	1,603,721	307,233	1,192,509
Conventional center (sub-leased to the City of Oak Grove Recreational, Tourist and Convention Commission)	8,379,033	1,365,399	5,221,232
Totals - governmental activities	<u>\$ 11,287,800</u>	<u>\$ 1,813,373</u>	<u>\$ 7,263,967</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, 2017**

Note 9 – Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2017 are as follows:

	June 30, 2016	Additions	Reductions	June 30, 2017	Due Within One Year
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	\$ 575,000	\$ -	\$ 55,000	\$ 520,000	\$ 55,000
Discount	(9,319)	-	(1,055)	(8,264)	(1,055)
Total Bonds Payable	<u>565,681</u>	<u>-</u>	<u>53,945</u>	<u>511,736</u>	<u>53,945</u>
Capital Leases					
KY Bond Corporation:					
Maintenance Garage	850,226	-	122,083	728,143	125,000
KY League of Cities:					
Community Center	1,192,509	-	131,780	1,060,729	135,911
2005 Convention Center	1,807,010	-	74,165	1,732,845	76,870
2009 Convention Center	3,414,222	-	192,996	3,221,226	201,470
Net premium/(discount)	(44,209)	-	(2,408)	(41,801)	(2,408)
Total Capital Leases	<u>7,219,758</u>	<u>-</u>	<u>518,616</u>	<u>6,701,142</u>	<u>536,843</u>
Total Governmental Activities	<u>\$ 7,785,439</u>	<u>\$ -</u>	<u>\$ 572,561</u>	<u>\$ 7,212,878</u>	<u>\$ 590,788</u>

	June 30, 2016	Additions	Reductions	June 30, 2017	Due Within One Year
Business-type Activities:					
Water Fund:					
US Department of Agriculture Bond	\$ 282,140	\$ -	\$ 15,030	\$ 267,110	\$ 15,690
Sewer Fund:					
Debt assumed by HWEA See Note 18	1,911,000	-	1,561,000	350,000	80,000
Total Business-type Activities	<u>\$ 2,193,140</u>	<u>\$ -</u>	<u>\$ 1,576,030</u>	<u>\$ 617,110</u>	<u>\$ 95,690</u>

	June 30, 2016	Additions	Reductions	June 30, 2017	Due Within One Year
Component Unit:					
2005 Convention Center	\$ 1,807,010	\$ -	\$ 74,165	\$ 1,732,845	\$ 76,870
2009 Convention Center	3,414,222	-	192,996	3,221,226	201,470
Net premium/(discount)	(56,048)	-	(4,230)	(51,818)	(4,230)
Total Component Unit	<u>\$ 5,165,184</u>	<u>\$ -</u>	<u>\$ 262,931</u>	<u>\$ 4,902,253</u>	<u>\$ 274,110</u>

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

**Notes to the Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 9 – Long-Term Liabilities (continued)

Long-term debt payable at June 30, 2017, was comprised of the following:

	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>June 30, 2017</u>
Governmental Activities:			
General Obligation Bonds Series 2005	3.00%	2025	\$ 520,000
KY Bond Corporation Lease Payable:			
Buildings	Variable	2022	728,142
KY League of Cities Leases Payable:			
Community Center	Variable *	2024	1,060,730
2005 Convention Center	Variable *	2034	1,732,845
2009 Convention Center	Variable *	2029	3,221,226
Net Bond Discount			<u>(50,065)</u>
Total Governmental Activities			<u>7,212,878</u>
Business-type Activities			
Water Fund:			
US Department of Agriculture Bonds	4.375%	2028	<u>267,110</u>
Sewer Fund:			
Debt Assumed by HWEA			
See Note 18	3.75% - 4.90%	2021	<u>350,000</u>
Total Business-type Activities			<u>617,110</u>
Total Long-Term Debt - General Government			<u>\$ 7,829,988</u>

	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>June 30, 2017</u>
Component Unit:			
City of Oak Grove - Sublease:			
2005 Convention Center	Variable *	2034	\$ 1,732,845
2009 Convention Center	Variable *	2029	3,221,226
Discount			<u>(51,818)</u>
Total Long-Term Debt - Component Unit			<u>\$ 4,902,253</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, 2017**

Note 9 – 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				
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	65,000	12,600	77,600	
2023-2025	215,000	19,575	234,575	
Total Bonds	<u>520,000</u>	<u>109,185</u>	<u>629,185</u>	
Capital Leases				
2018	539,251	231,097	770,348	
2019	555,113	212,426	767,539	
2020	573,609	193,148	766,757	
2021	596,098	173,120	769,218	
2022	700,870	154,217	855,087	
2023-2027	2,193,089	481,111	2,674,200	
2028-2032	1,369,204	135,308	1,504,512	
2033-2034	215,799	7,132	222,931	
Total Capital Leases	<u>6,743,033</u>	<u>1,587,559</u>	<u>8,330,592</u>	
Total Governmental Activities	<u>\$ 7,263,033</u>	<u>\$ 1,696,744</u>	<u>\$ 8,959,777</u>	

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued)
For the Year Ended June 30, 2017

Note 9 – Long-Term Liabilities (continued)

Business-Type Activities - Water Fund			
Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
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	18,620	8,755	27,375
2023-2027	106,080	30,818	136,898
2028-2030	75,410	6,693	82,103
Total Water Fund	<u>\$ 267,110</u>	<u>\$ 88,772</u>	<u>\$ 355,882</u>

Business-Type Activities - Sewer Fund			
Year Ending June 30	Principal	Interest	Total Debt Service
Bonds			
2018	\$ 80,000	\$ 17,150	\$ 97,150
2019	85,000	13,230	98,230
2020	90,000	9,065	99,065
2021	95,000	4,655	99,655
Total Sewer Fund	<u>\$ 350,000</u>	<u>\$ 44,100</u>	<u>\$ 394,100</u>

Component Unit			
Year Ending June 30	Principal	Interest/ Administrative	Total Debt Service
Capital Leases			
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	327,813	127,504	455,317
2023-2027	1,856,408	444,271	2,300,679
2028-2032	1,369,204	125,790	1,494,994
2033-2034	215,799	7,132	222,931
Total Component Unit Debt	<u>\$ 4,954,071</u>	<u>\$ 1,325,602</u>	<u>\$ 6,279,673</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 interest costs were incurred and expensed during the fiscal year ended June 30, 2017:

Government activities	\$ 73,870
Business-type activities	12,187
Component unit	111,998

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2017

Note 10 – 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.

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

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

**Notes to the Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 10 – Employee Retirement System (continued)

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.

Plan funding

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

<u>Non-hazardous</u>		<u>Hazardous</u>	
	<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 of Trustees to be necessary for the actuarial soundness of the system, as required by KRS 61.565 and 61.702. The City's required contribution rate was 18.68% for non-hazardous employees and 31.06% for hazardous employees for the year ended June 30, 2017.

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

At June 30, 2017, a total liability of \$3,875,840 was recognized for the proportionate share of the net pension liability; City at \$3,497,636 and Tourism Commission at \$378,204. The net pension liability was measured as of June 30, 2016, 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, 2016, the proportion was 0.042729% and 0.103267% for non-hazardous and hazardous employees, respectively.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

**Notes to the Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 10 – Employee Retirement System (continued)

For the year ended June 30, 2017, the total pension expense recognized was \$604,418; City for \$531,608 and Tourism Commission for \$72,810. At June 30, 2017, the reported deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	Deferred Outflows of of Resources	Deferred Inflows of of Resources
Differences between expected and actual experience	\$ 34,742	\$ -
Changes of assumptions	213,135	-
Net difference between projected and actual investment earnings on pension plan investments	347,267	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	350,743	258,304
Employer contributions subsequent to the measurement date	404,526	-
Total	<u>\$ 1,350,413</u>	<u>\$ 258,304</u>

Deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date totaling \$404,526 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:		
2018	\$ 89,188	\$ 129,194
2019	89,188	86,434
2020	120,146	84,186
2021	41,251	47,996
2022	-	-
Thereafter	-	-

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016 using standard roll-forward techniques, 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

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

**Notes to the Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 10 – Employee Retirement System (continued)

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 (setback 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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100%</u>	

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

Notes to the Financial Statements (continued) For the Year Ended June 30, 2017

Note 10 – Employee Retirement System (continued)

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 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of asset over the first four years of the projection period.

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

The following 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	\$ 2,621,718	\$ 2,103,834	\$ 1,659,904
Hazardous' proportionate share of net pension liability	\$ 2,226,156	\$ 1,772,006	\$ 1,397,411

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 11 – 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 12 – 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, 2017.

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

**Notes to the Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 13 – 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 14 – 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.

Note 15 – Note Receivable-HWEA

During the year ended June 30, 2008, the City entered into an agreement to sell the City's sewer system to the Hopkinsville Sewerage and Water Works Commission (HWEA). The total sale price amounted to \$6,986,762 which included cash payments of \$3,627,602 and debt assumption by HWEA of \$3,359,160. See Note 18 – Contingencies for disclosure regarding assumption of sewer system debt. 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, 2017 follows:

	Cash Financing	Debt Assumption	Totals
Note Balance July 1, 2016	\$ -	\$ 1,911,000	\$ 1,911,000
Release by creditors of liability transferred to HWEA	-	1,561,000	1,561,000
	<u> </u>	<u> </u>	<u> </u>
Note Balance June 30, 2017	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ 350,000</u>
Presented on the statement of net position under the following captions:			
Note Receivable:			
Within one year	\$ -	\$ 80,000	\$ 80,000
More than one year	-	270,000	270,000
	<u> </u>	<u> </u>	<u> </u>
	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ 350,000</u>

Note 16 – Note Receivable-Tourism Convention Center

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

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

See independent auditor's report.

CITY OF OAK GROVE, KENTUCKY

**Notes to the Financial Statements (continued)
For the Year Ended June 30, 2017**

Note 16 – Note Receivable-Tourism Convention Center (continued)

	2005 Lease	2009 Lease	Totals
Sublease balance - beginning of year	\$ 1,807,010	\$ 3,414,222	\$ 5,221,232
Less payments made by Tourism			
Commission during the fiscal year	74,165	192,996	267,161
Sublease balance - end of year	1,732,845	3,221,226	4,954,071
Unamortized lease discount	-	(51,818)	(51,818)
Sublease balance - end of year	<u>\$ 1,732,845</u>	<u>\$ 3,169,408</u>	<u>\$ 4,902,253</u>

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

Note Receivable:

Within one year	\$ 274,110
More than one year	4,628,143
	<u>\$ 4,902,253</u>

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

Year Ending June 30	Principal	Interest/ Administrative	Total Lease Payments
2018	278,340	170,968	449,308
2019	289,887	160,762	450,649
2020	301,887	154,126	456,013
2021	314,733	139,049	453,782
2022	327,813	127,504	455,317
2023-2027	1,856,408	444,271	2,300,679
2028-2032	1,369,204	125,790	1,494,994
2033-2034	215,799	7,132	222,931
	<u>\$ 4,954,071</u>	<u>\$ 1,329,602</u>	<u>\$ 6,283,673</u>

Note 17 - 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 18 - 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, 2017

Note 18 – Contingencies (continued)

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.

Sewer Debt Assumed by HWEA

HWEA assumed the City's sewer debt obligations as part of the sale agreement. The agreement states that the HWEA will make annual indebtedness payments as required by the various loans and bonds held by the City until HWEA can refinance the current indebtedness. HWEA will indemnify and hold the City harmless from the foregoing debts as long as the City is in compliance with the terms of the sale contract. The City is prohibited from obtaining additional indebtedness on the above mentioned sewer system. The City further covenants that there are no other debts, liens, or encumbrances associated with the sewer system.

The HWEA refunded two Kentucky Rural Finance revenue bonds assumed in the sale agreement during the year June 30, 2015 using proceeds from a general obligation bond issued by the City of Hopkinsville, Kentucky, on behalf of HWEA. The refunding relieved the City's liability from the debt obligations.

At June 30, 2017 the remains liable for the 1998 Waterworks Revenue Refunding Bonds assumed by HWEA with an outstanding balance of \$350,000.

Note 19 – Recently Issued Pronouncements

GASB Statement No. 82, Pension Issues (GASB 82)

GASB 82 provides amendments to pension guidance in GASB 67 and 68 based on three issues raised during implementation of those standards. It changes the payroll amount presented in required supplementary information back to covered payroll, being the amount on which contributions to the pension plan are based. It specifies that an actuarial valuation is not in conformity with the pension standards if it includes a deviation from the Actuarial Standards of Practice in the selection of assumptions. GASB 82 also specifies that payments made by employers to satisfy employee contribution requirements should be considered employee contributions and recognized as expense or expenditure in the same manner as other compensation.

GASB 82 is effective for financial statements for fiscal years beginning after June 15, 2016, with the exception of the provision related to a deviation from Actuarial Standards of Practice, which will be effective for fiscal years in which the measurement date is on or after June 15, 2017. This statement has not had an impact on the City's financial statements.

Note 20 – Subsequent Events

On July 28, 2017 the City paid the remaining principal and interest due on the US Department of Agriculture Bond in the amount of \$271,118.

Management has evaluated subsequent events through February 14, 2018, 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, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes and licenses	\$ 3,083,901	\$ 3,122,100	\$ 3,055,850	\$ (66,250)
Charges for services	67,150	47,125	57,470	10,345
Grants	65,250	71,000	81,617	10,617
Fines and forfeitures	85,000	80,000	72,709	(7,291)
Intergovernmental	422,300	427,000	416,091	(10,909)
Interest income	1,550	1,500	1,879	379
Miscellaneous	298,000	291,500	302,523	11,023
Total Revenues	<u>4,023,151</u>	<u>4,040,225</u>	<u>3,988,139</u>	<u>(52,086)</u>
Expenditures				
Current				
General government	728,675	703,165	664,429	38,736
Public safety	2,153,926	2,059,200	2,021,559	37,641
Public works	190,650	150,300	139,622	10,678
Parks and recreation	249,300	258,100	249,112	8,988
Debt Service				
Principal	307,000	307,000	308,863	(1,863)
Interest	82,000	82,000	73,870	8,130
Capital Outlays	326,600	495,460	266,242	229,218
Total Expenditures	<u>4,038,151</u>	<u>4,055,225</u>	<u>3,723,697</u>	<u>331,528</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(15,000)</u>	<u>(15,000)</u>	<u>264,442</u>	<u>279,442</u>
Other Financing Sources				
Sale of property	<u>15,000</u>	<u>15,000</u>	<u>30,913</u>	<u>15,913</u>
Total Other Financing Sources	<u>15,000</u>	<u>15,000</u>	<u>30,913</u>	<u>15,913</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>295,355</u>	<u>\$ 295,355</u>
Fund Balances - Beginning			<u>3,004,504</u>	
Fund Balances - Ending			<u>\$ 3,299,859</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>	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
City's proportion of the net pension liability (asset)	0.042729%	0.034328%	0.046944%							
City's proportionate share of the net pension liability (asset)	\$ 2,103,834	\$ 1,475,960	\$ 1,523,041							
City's covered-employee payroll*	1,297,242	1,303,541	1,352,945							
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	162.18%	113.23%	112.57%							
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.59%							
 <u>Hazardous</u>										
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
City's proportion of the net pension liability (asset)	0.103267%	0.089884%	0.097915%							
City's proportionate share of the net pension liability (asset)	\$ 1,772,006	\$ 1,379,808	\$ 1,176,772							
City's covered-employee payroll*	619,719	736,982	697,834							
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	285.94%	187.22%	168.63%							
Plan fiduciary net position as a percentage of the total pension liability	53.95%	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 2017 the measurement period is July 1, 2015 - June 30, 2016.

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>	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 171,670	\$ 190,689	\$ 138,652							
Contributions in relation to the contractually required contribution	<u>(171,670)</u>	<u>(190,689)</u>	<u>(138,652)</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
City's covered-employee payroll*	\$ 919,005	\$ 1,297,242	\$ 1,303,541							
Contributions as a percentage of covered-employee payroll	18.68%	14.70%	10.64%							
<u>Hazardous</u>	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 241,116	\$ 201,987	\$ 185,546							
Contributions in relation to the contractually required contribution	<u>(241,116)</u>	<u>(201,987)</u>	<u>(185,546)</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
City's covered-employee payroll*	\$ 766,288	\$ 619,719	\$ 736,982							
Contributions as a percentage of covered-employee payroll	31.47%	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, 2017

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

Note 2 - Changes of Assumption

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

2015:

- 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 (setback 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, 2017**

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

The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal years ending 2018, determined as of July 1, 2016. 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	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

BORLAND | BENEFIELD

**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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 14, 2018. Our report includes a reference to other auditors who audited the financial statements of the Oak Grove Tourism and Convention Commission (the Tourism Commission), as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in blue ink that reads "Borland Benefield P.C." with a stylized flourish at the end.

Borland Benefield, P.C.
Birmingham, Alabama
February 14, 2018