

**OAK GROVE TOURISM
& CONVENTION COMMISSION
A COMPONENT UNIT OF THE
CITY OF OAK GROVE, KENTUCKY**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2017

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
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INTRODUCTORY SECTION

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
June 30, 2017

BOARD OF COMMISSIONERS

Andy Wadhwa, Chairman
Paul Belmont, Vice Chairman
Hiren Shah, Treasurer
Dilip Shah, Commissioner
Elbert Moore, Commissioner
Nick Shah, Commissioner
Tom Meyer, Commissioner

ADMINISTRATIVE STAFF

Traci Cunningham, Executive Director

FINANCIAL SECTION



Independent Auditor's Report

Board of Commissioners
Oak Grove Tourism & Convention Commission
Oak Grove, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Oak Grove Tourism & Convention Commission, a component unit of the 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 Commission'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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Oak Grove Tourism & Convention Commission, a component unit of the City of Oak Grove, Kentucky, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension information, as noted in the table of contents, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2018, on our consideration of the Oak Grove Tourism & Convention Commission'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's 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 Oak Grove Tourism & Convention Commission's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Murray, Kentucky
January 4, 2018



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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended June 30, 2017

The discussion and analysis of the Oak Grove Tourism & Convention Commission (Commission) provides a narrative overview and analysis of the Commission's financial statements and the activities of the Commission for the year ended June 30, 2017. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- The Commission's net position, a measure of current financial resources, decreased by \$45,483 resulting in a June 30, 2017 balance of \$4,005,691.
- The Commission's unrestricted cash available for operating expenses was \$104,512 at June 30, 2017.
- The Commission's investment in capital assets, net of depreciation, was \$8,773,612 at June 30, 2017.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business. These statements include the Statement of Net Position and the Statement of Activities.

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

The Statement of Activities presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues

and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The governmental fund is the only fund category the Commission uses.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Statement of Net Position provides the perspective of the Commission as a whole. Net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,005,691 as of June 30, 2017.

The largest portion of the Commission's net position reflects its investment in capital assets (e.g., land and improvements, building and improvements, vehicles, furniture and equipment and construction in progress) less any related debt used to acquire those assets that is still outstanding. The Commission uses these capital assets to provide services to tourists and other clients; consequently, these assets are not available for future spending. Although the Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Commission's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The Commission's overall financial position and operations for the year ended June 30, 2017 as compared to June 30, 2016 are as follows:

Net Position

	2017	2016
Assets		
Current assets	\$ 432,722	\$ 468,328
Capital assets	8,773,612	8,969,007
Total assets	<u>9,206,334</u>	<u>9,437,335</u>
Deferred outflows of resources		
Pension related	<u>122,845</u>	<u>48,073</u>
Liabilities		
Current liabilities	7,844	3,241
Noncurrent liabilities	5,280,457	5,382,982
Total liabilities	<u>5,288,301</u>	<u>5,386,223</u>
Deferred inflows of resources		
Pension related	<u>35,187</u>	<u>48,011</u>
Net position		
Net investment in capital assets	3,871,359	3,803,823
Restricted	218,606	155,849
Unrestricted	(84,274)	91,502
Total net position	<u><u>\$ 4,005,691</u></u>	<u><u>\$ 4,051,174</u></u>

Statement of Activities

	2017	2016
Revenues		
Program revenues		
Charges for services	\$ 189,824	\$ 208,510
General revenues		
Taxes	1,164,264	1,161,063
Miscellaneous revenues	893	3,883
Interest earnings	954	289
Gain on sale of assets	-	225
Total revenues	<u>1,355,935</u>	<u>1,373,970</u>
Expenses		
General government	1,401,418	1,233,644
Total expenses	<u>1,401,418</u>	<u>1,233,644</u>
Change in net position	(45,483)	140,326
Net position, beginning of year	4,051,174	3,910,848
Net position, end of year	<u><u>\$ 4,005,691</u></u>	<u><u>\$ 4,051,174</u></u>

General Fund Budgetary Highlights

Actual revenues and other financing sources during fiscal year 2017 were \$1,355,935 which is \$41,533 less than budgeted by the Board of Commissioners. The deficit revenue was a result of the Commission receiving less restaurant and hotel/motel taxes than expected due to the closing of multiple restaurants and a two percent additional hotel tax imposed by Christian County possibly deterring visitors from staying in the area.

Actual expenditures during fiscal year 2017 were \$1,396,145 which was \$359,339 less than budgeted by the Board of Commissioners. During fiscal year 2017, the Commission spent \$72,171 less in capital outlay expenditures than what it had budgeted to spend. The Commission also spent \$95,768 less on personnel expenditures than what it had budgeted to spend namely due to deciding against hiring another employee and contracting out the maintenance of the grounds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset Administration

The Commissions investment in capital assets, net of depreciation, as of June 30, 2017 was as follows:

	Balance July 1, 2016	Additions (Retirements)	Balance June 30, 2017
Non-depreciable			
Land	\$ 1,558,404	\$ -	\$ 1,558,404
Total non-depreciable assets	1,558,404	-	1,558,404
Depreciable			
Buildings and improvements	7,250,879	(158,882)	7,091,997
Furniture, fixtures and equipment	142,564	(32,962)	109,602
Vehicles	17,159	(3,550)	13,609
Total depreciable	7,410,602	(195,394)	7,215,208
Total capital assets	\$ 8,969,006	\$ (195,394)	\$ 8,773,612

Depreciation expense for the year was \$273,853.

Debt activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Retirements	Balance June 30, 2017	Current Maturities
Capital Lease – 2005	\$ 1,807,010	\$ 74,165	\$ 1,732,845	\$ 76,870
Capital Lease – 2009	3,414,222	192,996	3,221,226	201,470
Discount	(56,048)	(4,230)	(51,818)	(4,230)
	<u>\$ 5,165,184</u>	<u>\$ 262,931</u>	<u>\$ 4,902,253</u>	<u>\$ 274,110</u>

BUDGETARY IMPLICATIONS

The following factors are expected to have a significant effect on the Commission's financial position or results of operations and were taken into account in developing the 2018 fiscal year budget:

- The 2018 fiscal year adopted budget continues most services at current levels.
- The deployment of troops at the Fort Campbell military installation continues to have an ongoing economic impact on the Commission's revenues.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 104,512
Restricted cash	218,606
Hotel/Motel taxes receivable	33,953
Restaurant taxes receivable	71,456
Inventory	4,195
Capital assets not being depreciated	1,558,404
Capital assets, net of accumulated depreciation	<u>7,215,208</u>
Total assets	<u>9,206,334</u>
 Deferred Outflows of Resources	
Pension related	<u>122,845</u>
 Liabilities	
City of Oak Grove payable	2,258
Payroll liabilities	5,586
Long-term liabilities	
Portion due or payable within one year	274,110
Portion due or payable in more than one year	4,628,143
Pension liability	<u>378,204</u>
Total liabilities	<u>5,288,301</u>
 Deferred Inflows of Resources	
Pension related	<u>35,187</u>
 Net Position	
Net investment in capital assets	3,871,359
Restricted	218,606
Unrestricted	<u>(84,274)</u>
Total net position	<u>\$ 4,005,691</u>

The accompanying notes are an integral part of these financial statements.

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities				<u>Governmental Activities</u>
General government	\$ 1,401,418	\$ 189,824	\$ -	\$ (1,211,594)
Total governmental activities	\$ 1,401,418	\$ 189,824	\$ -	(1,211,594)
General Revenues:				
Taxes				
Hotel/Motel taxes				334,773
Restaurant taxes				829,491
Miscellaneous revenues				893
Interest earnings				954
Total general revenues				1,166,111
Change in net position				(45,483)
Net position - beginning of year				4,051,174
Net position - ending				\$ 4,005,691

The accompanying notes are an integral part of these financial statements.

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 104,512
Restricted cash	218,606
Hotel/Motel taxes receivable	33,953
Restaurant taxes receivable	71,456
Inventory	4,195
Total assets	<u>\$ 432,722</u>
Liabilities and Fund Balances	
Liabilities	
City of Oak Grove payable	\$ 2,258
Payroll liabilities	5,586
Total liabilities	<u>7,844</u>
Fund balance	
Nonspendable	4,195
Restricted	218,606
Unassigned	<u>202,077</u>
Total fund balance	<u>424,878</u>
Total liabilities and fund balances	<u>\$ 432,722</u>

The accompanying notes are an integral part of these financial statements.

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2017

Total fund balance - governmental fund	\$ 424,878
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$10,713,582 and the accumulated depreciation is \$1,939,970.	8,773,612
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.	122,845
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.	(35,187)
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported as liabilities in the fund. Long-term liabilities at year-end consist of:	
Capital leases payable	(4,902,253)
Pension liability	<u>(378,204)</u>
	<u>(5,280,457)</u>
Total net position - governmental activities	<u>\$ 4,005,691</u>

The accompanying notes are an integral part of these financial statements.

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended June 30, 2017

	<u>Governmental Activities</u>
Revenues	
From local sources	
Taxes	
Hotel/Motel	\$ 334,773
Restaurant	829,491
Interest income	954
Other local revenues	<u>190,717</u>
Total revenues	<u>1,355,935</u>
Expenditures	
Current	
Personnel	334,031
Operating	559,495
Administrative	24,820
Debt service	
Administration and credit fees	20,211
Principal payment	267,161
Interest payments	111,998
Capital outlay	<u>78,429</u>
Total expenditures	<u>1,396,145</u>
Net change in fund balance	(40,210)
Fund balance, beginning of year	<u>465,088</u>
Fund balance, end of year	<u>\$ 424,878</u>

The accompanying notes are an integral part of these financial statements.

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Total net change in fund balance - governmental fund	\$ (40,210)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$273,853) exceeds capital outlays (\$78,459) in the period.	(195,394)
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Repayment of capital lease principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	267,161
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Some expenses, such as amortization expense on capital lease discounts, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund.	(4,230)
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The actuarially determined pension expense does not consume current financial resources and, therefore, is not reported in the governmental funds. It is reported as expenses in the statement of activities.	<div style="border-top: 1px solid black; display: inline-block; width: 100%;">(72,810)</div>
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Change in net position of governmental activities	<u>\$ (45,483)</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Oak Grove Tourism & Convention Commission is a component unit of the City of Oak Grove, Kentucky, which, for financial purposes, includes all of the funds and account groups relevant to the operations of the Commission. The City of Oak Grove formed the Commission in 1986 to promote recreational, tourism, and convention activities within the city limits of Oak Grove, Kentucky. The Commission operates under a seven-member board of commissioners. The board is made up of members of the restaurant association and hotel/motel association. The board members are appointed by the Mayor of Oak Grove.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

B. Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the Commission as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Commission that are governmental and those that are considered business-type activities. All of the Commission's activities are considered to be governmental activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the governmental and business-type activities. Direct expenses are those that are specifically associated with a particular function. Program revenues include charges paid for goods or services offered by the program and grants and contributions that are restricted to meeting the financial requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Commission, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each function is self-financing or is subsidized by the general revenues of the Commission.

Fund Financial Statements – Fund financial statements are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three primary categories: governmental, business-type (proprietary), and fiduciary. An emphasis is placed on major funds within the governmental and business-type categories, and a fund is considered major if it meets the following criteria:

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual fund are at least 5 percent of the corresponding total for all governmental and business-type funds combined.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the Commission finances and meets the cash flow needs of its proprietary activities.

The Commission has the following funds:

I. Governmental Fund Types

- a. The General Fund is the primary operating fund of the Commission. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is the major fund of the Commission.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Commission, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the Commission receives value without directly giving equal value in return, include grants, donations, and city and county allocation. Revenue from grants and donations is 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, in which the Commission must provide local resources to be used for a specified purpose. On a modified

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. However, principal and interest on long-term debt, which has not matured, are recognized when paid. Allocations of cost, such as depreciation, are not recognized in governmental funds.

D. Budgetary Process

The Commission's budgetary budget is prepared on the modified accrual basis of accounting. The accompanying statement of budgetary comparison – general fund includes budgeted expenditures for the year, along with management's estimate of revenues for the year. The legal level of budgetary control is at the total fund level. An approved budget can be amended by the Commission and all budget appropriations lapse at year-end.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

The Board considers demand deposits, money market accounts, and time deposits that are nonnegotiable, to be cash and cash equivalents, for the governmental fund.

G. Inventories

Inventories are stated at cost using the first in, first-out method. Inventories are expensed when used in the government-wide financial statements and recorded as expenditures in the governmental fund types when purchased.

H. Capital Assets

General capital assets are those assets that result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Commission maintains a capitalization threshold of \$2,500. The Commission does not possess any infrastructure. Improvements are capitalized; the cost of normal

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed as a current operating expenditure.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for general capital assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	40 years
Furniture and fixtures	5-10 years
Vehicles	5-10 years

I. Accrued and Long-Term Liabilities

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

J. Fund Balances

Governmental funds report fund balance in classifications based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable fund balance

This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable. The Commission has reported \$4,195 in nonspendable inventory at June 30, 2017.

Restricted fund balance

This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers. The Commission has reported \$218,606 in restricted cash at June 30, 2017.

Committed fund balance

This classification includes amounts that can only be used for the specific purposes determined by a formal action of the Commission's highest level of decision-making authority, the Board of Commissioners of the Oak Grove Tourism & Convention Commission. Commitments may be changed or lifted only by the Commission taking the same formal action that imposed the constraint originally (for example: resolution)

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Assigned fund balance

This classification includes amounts intended to be used by the Commission for specific purposes that are neither restricted nor committed. The Board and its designees, if any, have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned fund balance

This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Sometimes the Commission will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which resources are considered to be applied. It is the Commission's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

K. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation and the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governmental \$218,606 are restricted by Kentucky state statute. The statute requires the 1 percent tax collected for the sole purpose of meeting the operating expenses of a convention center to be maintained in an account separate and unique from all other funds and revenues collected.

Sometimes the Commission will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Commission's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

L. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position includes 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 so will not be

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recognized as an outflow of resources (expense/expenditure) until then. The Commission reports pension-related items in this category.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission records pension-related items as deferred inflows of resources.

M. 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 County Employees Retirement System Non-Hazardous (CERS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Impact of Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for financial statements for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria: 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable, 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms, and 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members. This statement has not had any impact on the Commission's financial statements.

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for financial statements for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement results from a comprehensive review of

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the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Management is currently evaluating the impact that the adoption of this statement will have on the Commission's financial statements.

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for reporting periods beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68 – *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. This statement has not had any impact on the Commission's financial statements.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Specifically, this Statement addresses issues regarding 1) the presentation of payroll-related measures in required supplementary information, 2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement has not had any impact on the Commission's financial statements.

NOTE 2 – DETAILED NOTES ON ACCOUNTS

A. Deposits

The Commission maintained deposits of public funds with depository institutions insured by FDIC as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institutions should

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pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As stipulated by KRS 41.240(4), all deposits are collateralized with eligible securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The Commission does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

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

B. Capital Assets

Changes in the capital assets during the year are summarized below:

<u>Governmental Activities</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2017</u>
Non-depreciable				
Land	\$ 1,558,404	\$ _____	\$ _____	\$ 1,558,404
Totals	<u>1,558,404</u>	<u>_____</u>	<u>_____</u>	<u>1,558,404</u>
Depreciable				
Buildings and improvements	8,616,982	69,905	-	8,686,887
Furniture, fixtures, and equipment	441,987	8,554	-	450,541
Vehicles	<u>17,750</u>	<u>-</u>	<u>-</u>	<u>17,750</u>
Totals	<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	<u>591</u>	<u>3,550</u>	<u>-</u>	<u>4,141</u>
Totals	<u>1,666,117</u>	<u>273,853</u>	<u>_____</u>	<u>1,939,970</u>
Net Book Value	<u>7,410,602</u>	<u>(195,394)</u>	<u>_____</u>	<u>7,215,208</u>
Total governmental activities	<u>\$ 8,969,006</u>	<u>\$ (195,394)</u>	<u>\$ _____</u>	<u>\$ 8,773,612</u>

Depreciation charged to income was \$273,853 at June 30, 2017.

C. Long-Term Liabilities

The Commission entered into sub-leases with the City of Oak Grove, Kentucky in order to fund various capital construction projects. The leases are solely secured by liens on and pledges of the net revenues of the Commission. Ordinances provide that the revenue of the Commission be used first to pay operating and maintenance expenses of the Commission and second to establish and

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maintain the capital lease payments. Remaining revenues may then be used for any lawful purpose.

The leases contain purchase options where the Commission may prepay in full the lease rental payments by paying to the lessor the optional prepayment price. Upon payment of the optional prepayment price, the lessor will transfer and convey the project to the Commission.

The leases were financed using variable interest rates. The variable rates may change according to the lessor's current financing rates. The Commission may elect to convert the variable interest rate to a fixed rate.

The original amount of each capital lease, the issue date, interest rate and maturity date are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Capital Lease – 2005	\$ 2,500,000	Variable	2034
Capital Lease – 2009	4,500,000	Variable	2029

Changes in the capital leases during the year are summarized below:

<u>Issue</u>	<u>Balance at July 1, 2016</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2017</u>	<u>Current Maturities</u>
Capital Lease – 2005	\$ 1,807,010	\$ -	\$ 74,165	\$ 1,732,845	\$ 76,870
Capital Lease – 2009	3,414,222	-	192,996	3,221,226	201,470
Discount	(56,048)	4,230	-	(51,818)	(4,230)
	<u>\$ 5,165,184</u>	<u>\$ 4,230</u>	<u>\$ 267,161</u>	<u>\$ 4,902,253</u>	<u>\$ 274,110</u>

Assuming no leases are prepaid prior to scheduled maturity, the minimum obligations of the Commission, at June 30, 2017 for capital lease principal, interest and administrative fees are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Discount</u>	<u>Total</u>
2018	\$ 278,340	\$ 175,198	\$ (4,230)	\$ 449,308
2019	289,887	164,992	(4,230)	450,649
2020	301,887	154,356	(4,230)	452,013
2021	314,733	143,279	(4,230)	453,782
2022	327,813	131,734	(4,230)	455,317
2023-2027	1,856,408	465,421	(21,150)	2,300,679
2028-2032	1,369,204	135,308	(9,518)	1,494,994
2033-2034	215,799	7,132	-	222,931
Total	<u>\$4,954,071</u>	<u>\$1,377,420</u>	<u>\$ (51,818)</u>	<u>\$6,279,673</u>

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D. Compensated Absences and Accumulated Sick Leave

The employees of the Commission are entitled to vacation and sick leave. Employees are allowed to accumulate a number of vacation days depending on the length of service. Employees are paid for up to eighty (80) hours of sick leave per year. Unused sick leave is not paid upon termination of employment. Accumulated unpaid vacation amounts are accrued when incurred if significant at year-end. At June 30, 2017, accrued vacation was not accrued and is not included in the financial statements because it is immaterial to the financial statements.

E. Advertising

Advertising costs are expensed when incurred. Advertising expense amounted to \$92,576 for the year ended June 30, 2017.

NOTE 3 – OTHER INFORMATION

A. Retirement Plans

For the year ended June 30, 2017, the Commission's total payroll for all employees was \$267,506. Total covered payroll was \$181,814. Covered payroll refers to all compensation paid by the Commission to active employees covered by the Plan.

County Employees Retirement System Non-Hazardous (CERS)

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit plan. CERS is administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System 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/>.

Employee membership data related to the Plan as of June 30, 2016 was as follows:

Retirees and beneficiaries currently receiving benefits	51,673
Terminated employees entitled to but not yet receiving benefits	75,904
Active plan members	<u>83,346</u>
	<u><u>210,923</u></u>

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, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old

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	Reduced retirement	At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date	Before September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87
	Reduced retirement	At least 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is 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' service is required for nonservice related disability benefits.

Contributions – Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommended rates. The Commission's contributions to CERS for the year ended June 30, 2017 were \$25,133.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the Commission reported a liability \$378,204 for its proportionate share of the net pension liability. The net pension liability for the plan 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 Commission's proportion of the net pension liability for CERS 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 Commission's proportion was 0.005066%.

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June 30, 2017

For the year ended June 30, 2017, the Commission recognized pension expense of \$72,810. At June 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,651	\$ -
Changes of assumptions	20,035	-
Net difference between projected and actual earnings on pension plan investments	35,555	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	40,471	35,187
Commission contributions subsequent to the measurement date	25,133	-
	<u>\$ 122,845</u>	<u>\$ 35,187</u>

Deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 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:

<u>Year ended June 30:</u>	
2018	\$ 23,455
2019	16,418
2020	14,754
2021	7,898

Actuarial assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Projected salary increases	4.00%
Investment rate of return, net of investment expense and inflation	7.50%

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

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June 30, 2017

The actuarial assumptions used in the June 30, 2016 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. 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.

Asset Class	Long-Term	
	Target Allocation	Expected Real Rate of Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash equivalent	2%	-0.25%
Total	100%	

Discount rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate – The following table presents the net pension liability of the Commission, calculated using the discount rate selected, as well as what the Commission'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 rates.

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	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
Commission's proportionate share of net pension liability	\$ 471,303	\$ 378,204	\$ 298,399

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

B. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial insurance for these types of risks, including worker's compensation, to protect itself from such losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage. The policy is in the name of the City of Oak Grove, Kentucky. The Commission is billed by the City of Oak Grove, Kentucky for reimbursement of their portion of the insurance coverage.

REQUIRED SUPPLEMENTARY INFORMATION

OAK GROVE TOURISM & CONVENTION COMMISSION
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STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND
For The Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Positive (Negative)</u>
Revenues				
From local sources				
Taxes				
Hotel/Motel	\$ 359,658	\$ 359,658	\$ 334,773	\$ (24,885)
Restaurant	845,000	845,000	829,491	(15,509)
Interest income	2,300	2,300	954	(1,346)
Other local revenues	190,510	190,510	190,717	207
Total revenues	<u>1,397,468</u>	<u>1,397,468</u>	<u>1,355,935</u>	<u>(41,533)</u>
Expenditures				
Current				
Personnel	429,799	429,799	334,031	95,768
Operating	688,725	688,725	559,495	129,230
Administrative	35,200	35,200	24,820	10,380
Debt service				
Administration and credit fees	-	-	20,211	(20,211)
Principal payment	267,162	267,162	267,161	1
Interest payments	183,998	183,998	111,998	72,000
Capital outlay	150,600	150,600	78,429	72,171
Total expenditures	<u>1,755,484</u>	<u>1,755,484</u>	<u>1,396,145</u>	<u>359,339</u>
Net change in fund balance	(358,016)	(358,016)	(40,210)	317,806
Fund balance, beginning of year	<u>358,016</u>	<u>358,016</u>	<u>465,088</u>	<u>107,072</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 424,878</u>	<u>\$ 424,878</u>

See independent auditor's report.

OAK GROVE TOURISM & CONVENTION COMMISSION
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SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employee's Retirement System
Last Fiscal Years Ending June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commission's proportion of the net pension liability (asset)	0.005066%	0.005066%	0.003181%
Commission's proportionate share of the net pension liability (asset)	<u>\$ 378,204</u>	<u>\$ 217,798</u>	<u>\$ 103,203</u>
Commission's covered-employee payroll	<u>\$ 179,717</u>	<u>\$ 121,409</u>	<u>\$ 149,955</u>
Commission's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	210.44%	179.39%	68.82%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

See independent auditor's report.

OAK GROVE TOURISM & CONVENTION COMMISSION
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SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS
County Employee's Retirement System
Fiscal Years Ending June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 25,133	\$ 22,349	\$ 20,460	\$ 28,206
Contributions in relation to the contractually required contribution	<u>(25,133)</u>	<u>(22,349)</u>	<u>(20,460)</u>	<u>(28,206)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's covered employee payroll	<u>\$ 181,814</u>	<u>\$ 179,717</u>	<u>\$ 121,409</u>	<u>\$ 149,955</u>
Contributions as a percentage of covered-employee payroll	13.82%	12.44%	16.85%	18.81%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

See independent auditor's report.

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

County Employees Retirement System

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.

Changes of assumptions – 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 (set back 1 year for females). For disabled members, the RP-2000 combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

INTERNAL CONTROL SECTION



**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***

Board of Commissioners
Oak Grove Tourism & Convention Commission
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 and the major fund of Oak Grove Tourism & Convention Commission, a component unit of the 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 Oak Grove Tourism & Convention Commission's basic financial statements and have issued our report thereon dated January 4, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oak Grove Tourism & Convention Commission'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 Oak Grove Tourism & Convention Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Oak Grove Tourism & Convention Commission'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 Oak Grove Tourism & Convention Commission'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.

Alexander Thompson Arnold PLLC

Murray, Kentucky

January 4, 2018

SCHEDULE OF FINDINGS AND RESPONSES

**OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017**

FINDINGS – FINANCIAL STATEMENT AUDIT

None reported

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2017

MATERIAL WEAKNESS

None reported

SIGNIFICANT DEFICIENCIES

None reported

CONTROL DEFICIENCIES

None reported

MANAGEMENT LETTER POINTS

I. **Condition:** The Commission's deposits are in excess of FDIC insurance and pledged collateral.

Criteria: Kentucky Revised Statute 41.240(1)(a) requires any bank to either pledge or provide, as collateral, securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits in excess of the amount insured by the Federal Deposit Insurance Corporation.

Current Status: This condition has been resolved.

MANAGEMENT LETTER POINTS



Alexander Thompson Arnold PLLC

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Traci Cunningham, Director
Oak Grove Tourism & Convention Commission
Board of Commissioners
Oak Grove, Kentucky

In planning and performing our audit of the financial statements of Oak Grove Tourism & Convention Commission as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United State of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effective of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

During our audit we did not become aware of any matters, other than inconsequential matters, that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter reflects that result. This letter does not affect our report dated January 4, 2018, on the financial statements of Oak Grove Tourism & Convention Commission.

This communication is intended solely for the information and use of management of Oak Grove Tourism & Convention Commission and others within the Commission, and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

Alexander Thompson Arnold, PLLC

Murray, Kentucky
January 4, 2018

**OAK GROVE TOURISM & CONVENTION COMMISSION
A COMPONENT UNIT OF THE CITY OF OAK GROVE, KENTUCKY
MANAGEMENT LETTER POINTS**
June 30, 2017

MANAGEMENT LETTER POINTS

None reported