

CITY OF OAK GROVE, KENTUCKY

REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the fiscal year ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Oak Grove, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Oak Grove, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Oak Grove Recreational, Tourist and Convention Commission ("the Tourism Commission"), a component unit of the City of Oak Grove. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Tourism Commission, is based on the report of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund, and the aggregate remaining fund information of the City of Oak Grove, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 49 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

M. E. Ely, Mitchell & Associates, LLP

Morganfield, Kentucky
March 29, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Oak Grove,
Kentucky

Management's Discussion and Analysis
June 30, 2011

The financial management of the City of Oak Grove, Kentucky (Oak Grove) offers readers of Oak Grove's financial statements this narrative overview and analysis of the financial activities of the City of Oak Grove for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with other information furnished in the notes to the financial statements.

Financial Highlights

- The assets of Oak Grove exceeded its liabilities at the close of the June 30, 2011 fiscal year by \$9,150,179 (net assets.) Of this amount, \$2,725,949 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.
- The government's total net assets decreased in fiscal year 2011 by \$437,481 or 4% from the previous year.
- As of the close of the current fiscal year, Oak Grove's governmental funds reported combined ending fund balances of \$3,284,746. Of this amount, \$2,384,093 is available for spending at the government's discretion (unreserved fund balance.) This is approximately 45% of total General Fund annual expenditures.
- Oak Grove's total indebtedness at the close of the fiscal year ended June 30, 2011 was \$13,957,193, a decrease of \$1,105,231 (7%) from the previous fiscal year. This decrease reflects a pay down of debt related to bonds, notes and capital leases.

Overview of the Financial Statements

This management's discussion and analysis is intended to serve as an introduction to Oak Grove's basic financial statements. Oak Grove's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

In addition, the financial statements present a component unit of Oak Grove, the City of Oak Grove Tourism and Convention Commission (the Tourism Commission.) Separate financial statements for the Tourism Commission may be obtained by writing to the Tourism Commission at P.O. Box 756, Oak Grove, Kentucky 42262.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of Oak Grove's finances in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to

the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of Oak Grove that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities.) Oak Grove's governmental activities include general government, protection to persons and property, roads, recreation, and social services. Oak Grove has two business-type activities – water and sewer funds.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Oak Grove, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Oak Grove can be divided into two broad categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Oak Grove maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Municipal Road Aid Fund, both of which are considered major funds of Oak Grove.

Oak Grove adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Departments, which are considered to be major funds of Oak Grove.

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

Government-wide Financial Analysis. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

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

City of Oak Grove's Net Assets
(in thousands)

	Governmental Activities		Business-Type Activities		Total		Component Unit	
	2011	2010	2011	2010	2011	2010	2011	2010
Assets								
Current and other assets	\$ 10,355	\$ 10,583	\$ 5,123	\$ 6,641	\$ 15,478	\$ 17,224	\$ 1,552	\$ 5,381
Capital assets	<u>5,060</u>	<u>4,819</u>	<u>2,569</u>	<u>2,607</u>	<u>7,629</u>	<u>7,426</u>	<u>8,900</u>	<u>5,162</u>
Total assets	<u>15,415</u>	<u>15,402</u>	<u>7,692</u>	<u>9,248</u>	<u>23,107</u>	<u>24,650</u>	<u>10,452</u>	<u>10,543</u>
Liabilities								
Current and other liabilities	1,197	1,147	769	667	1,966	1,814	218	210
Long-term liabilities	<u>8,926</u>	<u>9,611</u>	<u>3,065</u>	<u>3,638</u>	<u>11,991</u>	<u>13,249</u>	<u>6,095</u>	<u>6,309</u>
Total liabilities	<u>10,123</u>	<u>10,758</u>	<u>3,834</u>	<u>4,305</u>	<u>13,957</u>	<u>15,063</u>	<u>6,313</u>	<u>6,519</u>
Net Assets								
Invested in capital assets, net								
of related debt	2,890	2,252	2,015	2,016	4,905	4,268	2,591	(1,352)
Restricted	635	547	884	884	1,519	1,431	861	4,374
Unrestricted	<u>1,767</u>	<u>1,845</u>	<u>959</u>	<u>2,043</u>	<u>2,726</u>	<u>3,888</u>	<u>687</u>	<u>1,002</u>
Total net assets	<u>\$ 5,292</u>	<u>\$ 4,644</u>	<u>\$ 3,858</u>	<u>\$ 4,943</u>	<u>\$ 9,150</u>	<u>\$ 9,587</u>	<u>\$ 4,139</u>	<u>\$ 4,024</u>

Changes in Net Assets. Governmental activities increased Oak Grove's net assets by \$647,453 in fiscal year 2011. Key elements of this increase are as follows:

- Total revenues were \$4,361,696, an increase of 3% over the prior year. Of this, program revenues represent 7% of total revenues. Major sources of program revenues included operating grants and contributions and charges for services. General revenues represent the remaining 93% of total revenues. Major sources of general revenues include occupational and license taxes, property taxes and restaurant taxes.
- Expenditures totaled \$4,486,820, a decrease of 3% from the previous year. Of this, the major functions include public safety, tourism, and general government expenditures. Together they comprise 84% of the total program expenditures.

The following is a summary of the changes in nets assets of the City of Oak Grove and its component unit the City of Oak Grove Tourism and Convention Commission:

City of Oak Grove's Changes in Net Assets
(in thousands)

	Governmental Activities		Business-Type Activities		Total		Component Unit	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues								
Program revenues:								
Charges for services	\$ 185	\$ 95	\$ 1,891	\$ 1,757	\$ 2,076	\$ 1,852	\$ -	\$ 2
Grants and contributions								
Operating	108	129	-	-	108	129	-	19
Capital	-	-	140	6	140	6	-	-
General revenues:								
Taxes and related revenues	3,651	3,551	-	-	3,651	3,551	856	908
Other general revenues	373	399	93	225	466	624	-	1
Investment income	43	44	10	17	53	61	61	63
Gain (loss) on sale of fixed asset	1	-	-	-	1	-	-	-
Total revenues	<u>4,361</u>	<u>4,218</u>	<u>2,134</u>	<u>2,005</u>	<u>6,495</u>	<u>6,223</u>	<u>917</u>	<u>993</u>
Expenses								
General and administrative	657	867	-	-	657	867	-	-
Public safety	2,152	2,250	-	-	2,152	2,250	-	-
Public works	397	360	-	-	397	360	-	-
Parks and recreation	335	115	-	-	335	115	-	-
Tourism	856	906	-	-	856	906	827	673
Interest on long-term debt	89	134	-	-	89	134	6	5
Water	-	-	2,440	2,084	2,440	2,084	-	-
Sewer	-	-	6	11	6	11	-	-
Total expenses	<u>4,486</u>	<u>4,632</u>	<u>2,446</u>	<u>2,095</u>	<u>6,932</u>	<u>6,727</u>	<u>833</u>	<u>678</u>
Excess (deficiency) before transfers	<u>(125)</u>	<u>(414)</u>	<u>(312)</u>	<u>(90)</u>	<u>(437)</u>	<u>(504)</u>	<u>84</u>	<u>315</u>
Other financing sources (uses)								
Transfers in	773	834	-	-	773	834	-	-
Transfers out	-	-	(773)	(834)	(773)	(834)	-	-
Total other financing sources (uses)	<u>773</u>	<u>834</u>	<u>(773)</u>	<u>(834)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	648	420	(1,085)	(924)	(437)	(504)	84	315
Net assets, beginning	<u>4,644</u>	<u>4,224</u>	<u>4,943</u>	<u>5,867</u>	<u>9,587</u>	<u>10,091</u>	<u>4,055</u>	<u>3,709</u>
Net assets, end of year	<u>\$ 5,292</u>	<u>\$ 4,644</u>	<u>\$ 3,858</u>	<u>\$ 4,943</u>	<u>\$ 9,150</u>	<u>\$ 9,587</u>	<u>\$ 4,139</u>	<u>\$ 4,024</u>

Financial Analysis of the City of Oak Grove's Funds

As noted earlier, Oak Grove uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Oak Grove's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Oak Grove's financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2011 fiscal year, the combined ending fund balances of Oak Grove's governmental funds totaled \$3,284,746. The unreserved fund balance was \$2,384,093, which is intended for availability as working capital and for current spending in accordance with the purposes of the specific funds.

Oak Grove has two major governmental funds. These are 1) General Fund and 2) Municipal Road Aid Fund.

1. The General Fund is the primary operating fund of Oak Grove. At the end of the June 30, 2011 fiscal year, unreserved fund balance of the General Fund was \$2,384,093, while total fund balances were \$2,921,012. This decreased by \$291,218 from the prior year.
2. The Municipal Road Aid Fund is the fund related to city streets and road construction and maintenance. The Municipal Road Aid Fund had \$363,734 in fund balance at June 30, 2011. The fund balance at the end of the previous year was \$261,489. The fiscal year 2011 expenditures for road projects totaled \$307,040.

Proprietary Funds Overview. Oak Grove's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail. Oak Grove has two enterprise-type proprietary funds, the Water Fund and the Sewer Fund.

Total revenues were \$2,305,626, an increase of 15% from the prior year. Of this, program revenues represent 89% of total revenues. Charges for services are the major source of program revenue. General revenues represent 11% of total revenues.

Expenses totaled \$3,390,560, an increase of 16% from the previous year. Of this, the major functions include the Water and Sewer departments. The cost of water saw the largest increase from the prior year. In addition, the Sewer department made a large transfer of \$788,020 to the general fund related to the sale of the sewer system.

The Water Fund's unrestricted net assets at the end of the June 30, 2011 fiscal year amounted to \$27,052. The decrease in net assets from the previous year was \$126,388 or 83%. The Sewer Fund had unrestricted net assets of \$932,193 at the close of the June 30, 2011 fiscal year. The decrease in net assets was \$958,546 or 50%. These decreases are partially due to the transfer of funds to the general fund.

General Fund Budgetary Highlights

Over the course of the year, Oak Grove's governing body passed an original budget and a revised or amended budget. The main focus of the amendment was to more closely match the appropriations

available for revenues and expenditures. The most significant change (\$544,950) occurred in the Oak Grove's general government account, where cost cutting measures resulted in a 10 percent reduction of the general fund budgeted expenditures to meet reduced anticipated revenues.

Actual revenues of the general government fell short of budgeted revenues for the year by approximately \$400,000 dollars while actual expenditures closely matched budgeted expenditures. The excess of expenditures over revenues for the year was absorbed by using Oak Grove's fund balance. The proprietary funds budgeted both original and amended revenues to equal expenditures. However, like the general fund, Oak Grove's proprietary funds, also used fund balance to offset the excess of actual expenditures over actual revenues. Oak Grove officials are aware more work is needed in the budgeting process and will dedicate more resources moving forward to produce a more accurate budget in an effort to ensure expenditures do not exceed revenues to mitigate using fund balance as a measure to finance operations.

Capital Assets and Debt Administration

Capital Assets. Oak Grove's investment in capital assets for its government and business-type activities as of June 30, 2011 totaled \$7,629,665 (net of accumulated depreciation.) This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. Oak Grove has elected to report infrastructure assets prospectively per GASB No. 34 provisions. Additional information on Oak Grove's capital assets can be found in Note 8 of this report.

Long Term Debt. At the end of the 2011 fiscal year, Oak Grove had total debt outstanding of \$12,909,999. Of this amount, \$3,840,370 represents bonded debt. Additional information regarding these debt obligations can be found in the notes to the basic financial statements.

Other Matters

The following factors are expected to have a significant effect on Oak Grove's financial position or results of operations and were taken into account in developing the next year's budget.

- The 2012 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.
- Program cuts at the State level may have a negative impact on funding for programs. The funding of Oak Grove operations may not be impacted by state revenue shortfalls. However, special projects may be postponed.
- The current deployment of troops from Ft. Campbell to the Middle East and other places around the world may have an impact on the general economic conditions of the area, thus having a potential impact on Oak Grove's revenues.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF OAK GROVE, KENTUCKY
Statement of Net Assets
June 30, 2011

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Assets:				
Cash and cash equivalents	\$ 1,066,384	\$ 176,421	\$ 1,242,805	\$ 590,645
Investments	1,263,431	376,778	1,640,209	-
Receivables:				
Accounts/utilities	-	168,924	168,924	-
Taxes and liens	347,631	-	347,631	-
Hotel/motel and restaurant tax	100,343	-	100,343	100,343
Occupational license and franchise fees	79,847	-	79,847	-
Intergovernmental	44,298	-	44,298	-
Other	38,918	128,354	167,272	-
Other current assets	83,865	82,419	166,284	129
Restricted assets:				
Cash and cash equivalents	875,653	607,382	1,483,035	861,374
Investments	-	288,504	288,504	-
Capital assets:				
Depreciable, net	4,321,864	2,478,999	6,800,863	3,350,900
Non-depreciable	738,632	90,170	828,802	5,548,678
Due from Tourism Commission:				
Due within one year	218,167	-	218,167	-
Due in more than one year	6,090,885	-	6,090,885	-
Due from HWEA:				
Due within one year	-	757,184	757,184	-
Due in more than one year	-	2,537,000	2,537,000	-
Other non-current assets	145,319	-	145,319	-
Total assets	<u>15,415,237</u>	<u>7,692,135</u>	<u>23,107,372</u>	<u>10,452,069</u>
Liabilities:				
Accounts payable and other current liabilities	178,708	274,760	453,468	176
Hotel/motel and restaurant tax payable	100,343	-	100,343	-
Accrued liabilities	110,678	7,005	117,683	4,129
Utility deposits	-	282,150	282,150	-
Compensated absences	66,325	15,657	81,982	-
Liabilities payable from restricted assets:				
Accrued interest	-	11,568	11,568	-
Current portion of long term debt	-	37,907	37,907	-
Current portion of non-current liabilities	740,888	140,000	880,888	213,938
Non-current liabilities:				
Due to City of Oak Grove	-	-	-	6,095,115
Bonds payable	770,000	2,873,230	3,643,230	-
Notes payable	260,163	191,568	451,731	-
Capital leases	7,896,243	-	7,896,243	-
Total liabilities	<u>10,123,348</u>	<u>3,833,845</u>	<u>13,957,193</u>	<u>6,313,358</u>
Net Assets:				
Invested in capital assets, net of related debt	2,889,620	2,014,727	4,904,347	2,590,525
Restricted for:				
Debt service	175,073	884,318	1,059,391	-
KLC funds	-	-	-	861,374
Special projects	460,492	-	460,492	-
Unrestricted	1,766,704	959,245	2,725,949	686,812
Total net assets	<u>\$ 5,291,889</u>	<u>\$ 3,858,290</u>	<u>\$ 9,150,179</u>	<u>\$ 4,138,711</u>

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

CITY OF OAK GROVE, KENTUCKY
Statement of Activities
For the fiscal year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business- type Activities	Total	
Primary government:								
Governmental activities								
General government	\$ 656,577	\$ 90,785	\$ -	\$ -	\$ (565,792)	\$ -	\$ (565,792)	\$ -
Public safety	2,151,761	12,669	67,698	-	(2,071,394)	-	(2,071,394)	-
Public works	397,676	81,250	40,559	-	(275,867)	-	(275,867)	-
Parks and recreation	335,257	-	-	-	(335,257)	-	(335,257)	-
Tourism	856,054	-	-	-	(856,054)	-	(856,054)	-
Interest expense	89,495	-	-	-	(89,495)	-	(89,495)	-
Total governmental activities	<u>4,486,820</u>	<u>184,704</u>	<u>108,257</u>	<u>-</u>	<u>(4,193,859)</u>	<u>-</u>	<u>(4,193,859)</u>	<u>-</u>
Business-type Activities								
Water	2,440,338	1,890,981	-	140,402	-	(408,955)	(408,955)	-
Sewer	6,807	-	-	-	-	(6,807)	(6,807)	-
Total business-type activities	<u>2,447,145</u>	<u>1,890,981</u>	<u>-</u>	<u>140,402</u>	<u>-</u>	<u>(415,762)</u>	<u>(415,762)</u>	<u>-</u>
Total primary government	<u>\$ 6,933,965</u>	<u>\$ 2,075,685</u>	<u>\$ 108,257</u>	<u>\$ 140,402</u>	<u>\$ (4,193,859)</u>	<u>\$ (415,762)</u>	<u>\$ (4,609,621)</u>	<u>\$ -</u>
Component unit								
Tourism commission	\$ 837,338	\$ 1,040	\$ 8,716	\$ -	\$ -	\$ -	\$ -	\$ (827,582)
Interest expense	5,995	-	-	-	-	-	-	(5,995)
Total component unit	<u>\$ 843,333</u>	<u>\$ 1,040</u>	<u>\$ 8,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (833,577)</u>
General Revenues								
Taxes and related revenues:								
Property Taxes					\$ 738,103	\$ -	\$ 738,103	\$ -
Insurance Premium Taxes					463,773	-	463,773	-
Restaurant Taxes					664,180	-	664,180	664,180
Hotel/Motel Taxes					191,874	-	191,874	191,874
Parks and Recreation Taxes					137,363	-	137,363	-
Occupational and License Taxes					938,678	-	938,678	-
Franchise Taxes					306,596	-	306,596	-
Other Taxes					26,745	-	26,745	-
Intergovernmental					184,143	-	184,143	-
Investment Income					42,952	9,946	52,898	61,471
Other Revenue					373,428	93,459	466,887	50
Loss on sale of municipal property					900	-	900	-
Transfers					772,577	(772,577)	-	-
Total General Revenues and Transfers					<u>4,841,312</u>	<u>(669,172)</u>	<u>4,172,140</u>	<u>917,575</u>
Change in Net Assets					647,453	(1,084,934)	(437,481)	83,998
Net Assets - beginning of year					<u>4,644,436</u>	<u>4,943,224</u>	<u>9,587,660</u>	<u>4,054,713</u>
Net Assets - end of year					<u>\$ 5,291,889</u>	<u>\$ 3,858,290</u>	<u>\$ 9,150,179</u>	<u>\$ 4,138,711</u>

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

FUND FINANCIAL STATEMENTS

CITY OF OAK GROVE, KENTUCKY
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Municipal Road Aid Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 1,066,384	\$ -	\$ 1,066,384
Investments	1,263,431	-	1,263,431
Receivables:			
Intergovernmental	19,298	25,000	44,298
Taxes and lien	239,688	-	239,688
Occupational license and franchise fee	79,847	-	79,847
Other	11,078	-	11,078
Prepaid expense	83,865	-	83,865
Restricted assets:			
Cash and cash equivalents	536,919	338,734	875,653
Total assets	<u>3,300,510</u>	<u>363,734</u>	<u>3,664,244</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and other current liabilities	279,051	-	279,051
Accrued liabilities	93,278	-	93,278
Compensated absences	7,169	-	7,169
Total liabilities	<u>379,498</u>	<u>-</u>	<u>379,498</u>
Fund Balances:			
Restricted for:			
Debt service	172,399	-	172,399
Special projects	99,432	363,734	463,166
Capital projects	265,088	-	265,088
Unassigned	2,384,093	-	2,384,093
Total fund balances	<u>2,921,012</u>	<u>363,734</u>	<u>3,284,746</u>
Total liabilities and fund balances	<u>\$ 3,300,510</u>	<u>\$ 363,734</u>	<u>\$ 3,664,244</u>

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

CITY OF OAK GROVE, KENTUCKY
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
June 30, 2011

Total governmental fund balance per fund financial statements	
different because:	\$ 3,284,746
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	5,060,496
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Taxes receivable	208,286
Grants receivable	27,840
Due from Tourism Commission	6,459,627
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 at year-end consist of:	
Long-term debt:	
Due within one year	(740,888)
Due in more than one year	(8,926,406)
Debt issuance costs	(5,256)
Accrued interest on long-term debt	(17,400)
Compensated absences	(59,156)
	<hr/>
Net assets of governmental activities	<u>\$ 5,291,889</u>

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

CITY OF OAK GROVE, KENTUCKY
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the fiscal year ended June 30, 2011

	General Fund	Municipal Road Aid Fund	Total Governmental Funds
Revenues:			
Taxes and licenses	\$ 3,449,132	\$ -	\$ 3,449,132
Charges for services	184,704	-	184,704
Grants	80,417	-	80,417
Intergovernmental	21,318	162,825	184,143
Interest income	42,952	-	42,952
Miscellaneous	239,160	-	239,160
Total revenues	<u>4,017,683</u>	<u>162,825</u>	<u>4,180,508</u>
Expenditures:			
Current:			
General government	605,243	-	605,243
Public safety	1,949,557	-	1,949,557
Public works	317,803	25,878	343,681
Parks and recreation	250,494	-	250,494
Debt service:			
Principal	476,771	23,035	499,806
Interest and other charges	82,946	1,323	84,269
Capital outlays	359,722	256,804	616,526
Transfers to Tourism Commission	856,054	-	856,054
Total expenditures	<u>4,898,590</u>	<u>307,040</u>	<u>5,205,630</u>
Deficiency of revenues over expenditures	<u>(880,907)</u>	<u>(144,215)</u>	<u>(1,025,122)</u>
Other financing sources:			
Debt proceeds	59,998	-	59,998
Sale of Municipal Property	900	-	900
Transfers in (out)	526,117	246,460	772,577
Total other financing sources	<u>587,015</u>	<u>246,460</u>	<u>833,475</u>
Net change in fund balances	(293,892)	102,245	(191,647)
Fund balances- beginning of year	<u>3,214,904</u>	<u>261,489</u>	<u>3,476,393</u>
Fund balances - end of year	<u>\$ 2,921,012</u>	<u>\$ 363,734</u>	<u>\$ 3,284,746</u>

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

CITY OF OAK GROVE, KENTUCKY
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance to the Statement of Activities
For the fiscal year ended June 30, 2011

Net change in fund balance - total governmental funds \$ (191,647)

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

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. 244,375

Some revenues will not be collected for several months after the City's fiscal year end. These are not considered "available" revenues in the governmental funds until received. Change in amount deferred on Fund statements. 177,399

Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums and discounts when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 434,552

Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. Change in accrued interest 30

In the statement of activities, certain operating expenses, compensated absences are measured by the amounts earned during the year. However in the governmental funds, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an addition to the reconciliation. (17,256)

Change in net assets of governmental activities \$ 647,453

CITY OF OAK GROVE, KENTUCKY
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-type Activities		
	Water	Sewer	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 165,410	\$ 11,011	\$ 176,421
Investments	72,780	303,998	376,778
Receivables:			
Accounts	168,924	-	168,924
Other	128,354	-	128,354
Other current assets	82,419	-	82,419
Restricted assets:			
Cash and cash equivalents	607,382	-	607,382
Investments	216,765	71,739	288,504
Capital assets:			
Depreciable, net	2,448,895	30,104	2,478,999
Non-depreciable	90,170	-	90,170
Due from HWEA:			
Due within one year	-	757,184	757,184
Due in more than one year	-	2,537,000	2,537,000
	<u>3,981,099</u>	<u>3,711,036</u>	<u>7,692,135</u>
Liabilities:			
Current liabilities:			
Accounts payable and other current liabilities	274,760	-	274,760
Utility deposits	282,150	-	282,150
Compensated absences	15,657	-	15,657
Accrued salaries	7,005	-	7,005
Liabilities payable from restricted assets:			
Accrued interest	11,568	-	11,568
Current portion of long-term debt	37,907	-	37,907
Current portion of non-current liabilities	-	140,000	140,000
Non-current liabilities:			
Bonds Payable	336,230	2,537,000	2,873,230
Notes Payable	191,568	-	191,568
	<u>1,156,845</u>	<u>2,677,000</u>	<u>3,833,845</u>
Net Assets:			
Invested in capital assets, net of related debt	1,984,623	30,104	2,014,727
Restricted - debt service	812,579	71,739	884,318
Unrestricted	27,052	932,193	959,245
	<u>\$ 2,824,254</u>	<u>\$ 1,034,036</u>	<u>\$ 3,858,290</u>

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

CITY OF OAK GROVE, KENTUCKY
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the fiscal year ended June 30, 2011

	Business-type Activities		
	Water	Sewer	Total
Operating revenues:			
Charges for services- water	\$ 1,387,768	\$ -	\$ 1,387,768
Charges for services- sanitation	503,213	-	503,213
Total operating revenues	<u>1,890,981</u>	<u>-</u>	<u>1,890,981</u>
Operating expenses:			
Personnel services	453,833	-	453,833
Water cost	919,912	-	919,912
Sanitation expense	503,616	-	503,616
Contractual services	165,250	-	165,250
Utilities	93,103	-	93,103
Repairs and maintenance	44,651	-	44,651
Materials and supplies	70,125	-	70,125
Depreciation	164,750	6,807	171,557
Total operating expenses	<u>2,415,240</u>	<u>6,807</u>	<u>2,422,047</u>
Operating loss	<u>(524,259)</u>	<u>(6,807)</u>	<u>(531,066)</u>
Non-operating revenues (expenses):			
Other income	264,297	-	264,297
Loss on contract	-	(170,838)	(170,838)
Interest income	2,827	7,119	9,946
Interest expense	(25,098)	-	(25,098)
Total	<u>242,026</u>	<u>(163,719)</u>	<u>78,307</u>
Decrease in net assets before contributions and transfers	(282,233)	(170,526)	(452,759)
Capital contributions and transfers:			
Customers	19,400	-	19,400
Grants	121,002	-	121,002
Transfers in (out)	15,443	(788,020)	(772,577)
Decrease in net assets	(126,388)	(958,546)	(1,084,934)
Net Assets - beginning	<u>2,950,642</u>	<u>1,992,582</u>	<u>4,943,224</u>
Net assets - end of year	<u>\$ 2,824,254</u>	<u>\$ 1,034,036</u>	<u>\$ 3,858,290</u>

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

CITY OF OAK GROVE, KENTUCKY
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2011

	Business-type Activities		
	Water	Sewer	Total
Cash flows from operating activities			
Receipts from customers	\$ 1,775,645	-	\$ 1,775,645
Payments to suppliers	(1,698,431)	-	(1,698,431)
Payments to employees	(449,190)	-	(449,190)
Net cash provided (used) from operating activities	(371,976)	-	(371,976)
Cash flows from non-capital financing activities			
Other revenues	264,297	-	264,297
Contributions from customers	19,400	-	19,400
Customer deposits, net	30,150	-	30,150
Transfer to other funds	15,443	(788,020)	(772,577)
Net cash provided (used) from non-capital financing activities	329,290	(788,020)	(458,730)
Cash flows from capital and related financing activities			
Principal payments on debt	(37,015)	-	(37,015)
Proceeds from grants	121,002	-	121,002
Acquisition and construction of capital assets	(133,464)	-	(133,464)
Interest paid on debt	(19,041)	-	(19,041)
Net cash used from capital and related financing activities	(68,518)	-	(68,518)
Cash flows from investing activities			
Investment income	2,827	7,119	9,946
Principal receipts on note receivable	-	788,020	788,020
Increase in investments, net	-	(7,119)	(7,119)
Net cash provided by investing activities	2,827	788,020	790,847
Net increase (decrease) in cash and cash equivalents	(108,377)	-	(108,377)
Cash and cash equivalents, beginning of year	881,169	11,011	892,180
Cash and cash equivalents, end of year	\$ 772,792	\$ 11,011	\$ 783,803
Reconciliation of total cash and cash equivalents:			
Current assets- cash and cash equivalents	\$ 165,410	\$ 11,011	\$ 176,421
Restricted assets- cash and cash equivalents	607,382	-	607,382
	\$ 772,792	\$ 11,011	\$ 783,803

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

CITY OF OAK GROVE, KENTUCKY
Statement of Cash Flows, Continued
Proprietary Funds
For the fiscal year ended June 30, 2011

	Business-type Activities		
	Water	Sewer	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating loss	\$ (524,259)	\$ (6,807)	\$ (531,066)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	164,750	6,807	171,557
Change in operating assets and liabilities:			
Decrease (increase) in assets:			
Receivables, net	(126,735)	-	(126,735)
Other current assets	11,399	-	11,399
Increase (decrease) in liabilities:			
Accounts payable and other current liabilities	100,158	-	100,158
Compensated absences	2,711	-	2,711
Net cash provided (used) by operating activities	<u>\$ (371,976)</u>	<u>\$ -</u>	<u>\$ (371,976)</u>

CITY OF OAK GROVE, KENTUCKY

Notes to Financial Statements

June 30, 2011

1. Summary of Significant Accounting Policies

The City of Oak Grove, Kentucky (the "City") was incorporated in 1974. The City operates under a Mayor-Council form of government and provides the following services as authorized by its charter: general governmental services, public safety, public works, and parks and recreation. The council is made up of six members elected by registered voters.

The accounting policies of the City of Oak Grove, Kentucky conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to state and local governments. US GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governments and by the Financial Accounting Standards Board (FASB) (when applicable). As allowed by GASB Statement 20, the City has elected not to apply FASB Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 1, 1989. The more significant accounting policies of the City are described below.

a. Financial Reporting Entity

The accompanying financial statements present the City of Oak Grove, Kentucky, the primary government, and its component unit. Component units are separate legal entities for which the City is financially accountable. Exclusion of these entities would cause the City's financial statements to be misleading or incomplete.

Discretely Presented Component Units

The component unit column in the government-wide financial statements includes the financial data of the component units of the City of Oak Grove, Kentucky. The following is a summary of the component units:

The City of Oak Grove Recreational, Tourist and Convention Commission (the "Tourism Commission") was established through City ordinances and 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 City of Oak Grove Recreational, Tourist and Convention Commission, by writing to the Commission, P.O. Box 756, Oak Grove, Kentucky.

The City allocates 100% of restaurant and hotel taxes to the "Tourism Commission". For the year ended June 30, 2011, \$856,054 of tax revenue was collected by the "Tourism Commission." The City subleased two capital leases related to the Convention Center facility to the "Tourism Commission." There were no other significant transactions between the City and the "Tourism Commission."

1. **Summary of Significant Accounting Policies, Continued**

b. **Basis of Presentation**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all the non-fiduciary activities of the primary government and its component units. Interfund activity, within the governmental and business-type activities columns, which duplicates revenues or expenses, has been eliminated from these statements. Exceptions to this general rule are the transfers between the proprietary and the governmental funds. Transfers during fiscal year 2011 include both operating transfers and increases to restricted funds. Governmental activities and business-type activities are reported separately to highlight the differences in funding and operations. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, on the other hand, rely to a significant extent on fees and charges that are designed to recover the costs of operations, including the cost of capital.

The statement of activities outlines the direct expenses of each of the City's major functions and the program revenues generated by those programs. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) operating and capital 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.

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column. Major funds are those whose assets, liabilities, revenues, or expenses/expenditures are at least ten percent of the corresponding totals (assets, liabilities, etc) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenses/expenditures are at least five percent of the corresponding total for all governmental and enterprise funds combined. The City may also designate any fund as major.

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds.

General Fund-

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except where the Department of Local Government or management requires that a separate fund be used for some functions.

CITY OF OAK GROVE, KENTUCKY

Notes to Financial Statements

June 30, 2011

1. Summary of Significant Accounting Policies, Continued

b. Basis of Presentation, Continued

Municipal Road Aid Fund-

The Municipal Road Aid (MRA) Fund is a special revenue fund that accounts for the state allocation of the gasoline tax to local governments for road improvements. Expenditures for street construction, reconstruction and maintenance are eligible for this funding source. The Department of Local Government requires the City to maintain these receipts and expenditures separately from the General Fund.

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Water Fund-

The Water and Sewer Fund is used to account for the provision of water and trash services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted as needed to ensure the integrity of the funds.

Sewer Fund-

The Sewer Fund is used to account for the sewer activity of the City. Activities of the fund include administration and billing and collection activities. The sewer plant was sold in May 2008 to the Hopkinsville Sewerage and Water Works Commission ("HWEA"). HWEA assumed the City's sewer debt. The City performs all billing and collection services and remits collections to HWEA. All costs are funded through funds received from HWEA.

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 utilities are charges to the customers for services. The City's utilities also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

1. Summary of Significant Accounting Policies, Continued

c. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting revenues are recognized when earned, including unbilled utility services which are accrued. Expenses are recognized at the time the liability is incurred. Property tax revenues are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both 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 be used to pay 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 period. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment has matured and will be payable shortly after year end.

Property taxes, franchise taxes, licenses, charges for services, intergovernmental revenues, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

d. Restricted Assets

Certain proceeds of proprietary fund revenue bonds and grants, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable covenants. Restricted assets consist of cash and certificates of deposit and are used only after the unrestricted resources are depleted.

1. **Summary of Significant Accounting Policies, Continued**

e. **Cash and Cash Equivalents**

For purposes of the statement of cash flows for proprietary fund types, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

f. **Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Kentucky Revised Statute 66.480 permits the City to invest in U. S. Treasury obligations, U.S. Agency Obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits and the Commonwealth of Kentucky investment pool. As security for deposits of the City, any bank doing such business is required to pledge securities in an amount to exceed funds on deposit by the City. In addition, the City of Oak Grove is insured under the FDIC for up to \$250,000 with each bank.

Investments of the City are reported at fair value. Certificates of deposit are reported at cost since the redemption terms do not consider market rates.

g. **Uncollectible Tax and Other Receivables**

All trade and property tax receivables, including those for utilities, are shown net of an allowance for uncollectible. Trade accounts that are classified as inactive have been included in the allowance for uncollectible. Amounts considered to be uncollectible are based on the type and age of the related receivables and historic experience.

h. **Use of Estimates**

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

1. Summary of Significant Accounting Policies, Continued

i. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sewer lines and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000, and estimated useful life in excess of one year. Additions or improvements that significantly add value to an asset or increasing its capacity or efficiency are capitalized. Other costs for repairs and maintenance are expensed as incurred.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight line method over the following estimated useful lives:

Buildings and Improvements	15-40 years
Vehicles	5 years
Office Furniture and Fixtures	7 years
Equipment	5-10 years
Office Equipment	5-7 years
Computer Equipment	5 years
Infrastructure	30-50 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 basic financial statements. In accordance with Statement No. 34, the City has elected to report infrastructure prospectively.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include the street system; water purification and distribution system; sewer collection and treatment system; park and recreation lands; and buildings combined with site amenities such as parking and landscaped areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be divided into concrete and asphalt pavements, concrete curbing, sidewalks, streetlights, traffic control devices, landscaping and land. Subsystem detail is not presented in these basic financial statements; however, the City maintains detailed information on these subsystems.

For all other capital assets: buildings, vehicles, and equipment, the City elects to use the Basic Approach as defined by Statement No. 34 for reporting.

1. Summary of Significant Accounting Policies, Continued

j. Long-Term Obligations

In the government-wide financial statements, and proprietary funds 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount bond issuance costs are reported as deferred charges and amortized over the life of the related debt and the unamortized deferred amounts from refunding issues.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while premiums received and discounts on debt issuances are reported as other financing sources/uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

k. Compensated Absences

All full-time employees are entitled to vacation leave at the rate of one year of service, forty (40) hours per year; two years of service, eighty (80) hours per year; five years of service, one hundred twenty (120) hours per year; and ten years or more of service, one hundred sixty (160) hours per year. Annual leave accrues from the anniversary date of hire on a pro-rated basis. Accrued vacation leave is limited to eighty (80) hours on the anniversary date of hire. An employee who resigns will be paid for all accumulated annual leave, up to the legal maximum they are permitted to carry over from year to year, provided the employee gives at least fourteen (14) calendar days written notice of their final workday.

Accumulated vacation leave must be used within one year, so there is no long-term debt for these benefits. The liability for these compensated absences is recorded as current liabilities in the government-wide statements. Liabilities are calculated using the employee's current rate of pay and the total hours of accumulated leave.

Compensated absence activity for the year ended June 30, 2011 was as follows:

	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011
<u>Governmental Activities:</u>				
Compensated absences	\$ 49,069	\$ 87,697	\$ (70,441)	\$ 66,325
<u>Business-Type Activities:</u>				
Compensated absences	\$ 12,946	\$ 14,172	\$ (11,461)	\$ 15,657

1. Summary of Significant Accounting Policies, Continued

1. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported by fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

- Nonspendable- consists of amounts that cannot be spent because they are either 1) not in spendable form, or 2) legally or contractually required to be maintained intact.

Spendable include the following:

- Restricted- consist of fund balances that are restricted by external parties (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Committed- consists of 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 the 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- consists of 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 Administrator, or any other body or official which they have delegated the authority to assign amounts to be used for a specific purpose.
- Unassigned- consists of amounts of spendable fund balance that has not been restricted, committed, or assigned to specific purposes within a fund.

Restrictions of governmental fund balances at June 30, 2011 include the following:

Street improvements	\$ 463,166
Capital construction	265,088
Debt service	<u>172,399</u>
	<u>\$ 900,653</u>

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

1. Summary of Significant Accounting Policies, Continued

m. Non-exchange Transactions

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, entitlements, and donations. Property taxes levied to finance fiscal year ended June 30, 2011 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue 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, in which the City must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

n. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balances in the governmental funds and net assets reported in the government-wide statements. These adjustments 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 of the governmental activities column.

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

o. Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Government-wide and proprietary fund net assets are divided in to three components:

- Invested in capital assets, net of related debt- consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets- consist of net assets that are restricted by the City's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by contributors.
- Unrestricted- all other net assets are reported in this category.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

2. Deposits and Investments

Deposits

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that 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 statutes at June 30, 2011 at their highest daily balance during the fiscal year.

At June 30, 2011, the City maintained deposits in the amount of \$4,749,342 with three local financial institutions. Of these bank balances, \$761,011 was insured by Federal Deposit Insurance and the balance of \$3,988,331 was fully collateralized by pledged securities, as required by the Kentucky Revised Statutes. The carrying amount of these deposits was \$4,654,553.

Investments

The City's investment policies are to invest public funds in a manner which will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the City and conforming to all state statutes and City regulations governing the investment of public funds.

The City's investments are included in the balance sheet in the caption "Investments". As of June 30, 2011, the City of Oak Grove, Kentucky had the following investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>
Certificates of deposit	<u>\$ 1,928,713</u>	<u>\$ 458,235</u>	<u>\$ 1,470,478</u>	<u>\$ -</u>
Total	<u>\$ 1,928,713</u>	<u>\$ 458,235</u>	<u>\$ 1,470,478</u>	<u>\$ -</u>
Reconciliation to total investments:				
Current assets- investments	<u>\$ 1,640,209</u>	<u>\$ 458,235</u>	<u>\$ 1,181,974</u>	<u>\$ -</u>
Restricted assets- investments	<u>288,504</u>	<u>-</u>	<u>288,504</u>	<u>-</u>
Total	<u>\$ 1,928,713</u>	<u>\$ 458,235</u>	<u>\$ 1,470,478</u>	<u>\$ -</u>

Interest Rate Risk

The city does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investments were exposed to interest rate risk at June 30, 2011.

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

2. Deposits and Investments, Continued

Credit Risk

The City has no policy regarding credit risk. The City is authorized to invest in U.S. Government backed securities, any corporation of the U.S. Government, Certificates of Deposit and Bankers Acceptances issued by highly rated banks, commercial papers in the highest rating category, and securities issued by a state or local government rated in one of the three highest categories by a nationally-recognized rating agency, and any other investment permitted by Kentucky Revised Statute 66.480. The City's investments at June 30, 2011 were exposed to minimal credit risk based on the pledged collateral by various financial institutions.

Custodial Credit Risk

For an investment, the custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All restricted and unrestricted investments of the City comprise of certificates of deposit which are held by the City in the City's name. The City has no policy on custodial credit risk. The City's investments at June 30, 2011 were held in the name of the City of Oak Grove and were not exposed to any custodial credit risk.

Concentration of Credit Risk

The City places no limit on the amount that the City may invest in any one issuer. More than 5 percent of the City's investments are in certificates of deposit at BB&T and Planter's Bank, respectively. These investments represent 100 % of the City's total investments.

3. Receivables

Receivables as of June 30, 2011 for the City's major funds, including the applicable allowance for uncollectible accounts are as follows:

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
Receivables:			
Accounts	\$ -	\$ 171,227	\$ 171,227
Taxes	408,492	-	408,492
Specail assessments/ Liens	142,801	-	142,801
Intergovernmental	44,298	-	44,298
Grants	27,840	121,002	148,842
Other	11,078	7,352	18,430
Gross receivables	<u>634,509</u>	<u>299,581</u>	<u>934,090</u>
Allowance for uncollectibles	<u>(23,472)</u>	<u>(2,303)</u>	<u>(25,775)</u>
Net receivables	<u>\$ 611,037</u>	<u>\$ 297,278</u>	<u>\$ 908,315</u>

CITY OF OAK GROVE, KENTUCKY

Notes to Financial Statements

June 30, 2011

4. Property Taxes

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in 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 accounts.

Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and, therefore, susceptible to accrual in accordance with generally accepted accounting principles, have been recognized as revenue.

The City is permitted by Section 157 of the Constitution of Kentucky to levy taxes up to \$.750 per \$100 of assessed valuation for general governmental services other than school purposes. The real property tax rate for the year ended June 30, 2011, was \$.255 per \$100, which allows the City to have a tax margin of \$.495 per \$100 on the assessed valuation of \$269,113,315. The City allocated one and one-half cents of the real property tax levy to Parks and Recreation. The personal property tax rate for the year ended June 30, 2011, was \$.176 per \$100, which allows the City to have a tax margin of \$.574 per \$100 on the assessed valuation of \$15,894,295.

5. Stewardship, Compliance and Accountability

Through the budget, the City Council sets the directions of the City, allocates its resources and establishes its priorities. The Annual Budget ensures the efficient and effective uses of the City's economic resources, as well as establishing that the highest priority objectives are accomplished.

The City Charter establishes the fiscal year as the twelve-month period beginning July 1. The departments submit to the Mayor a budget of estimated expenditures for the ensuing fiscal year after which the Mayor subsequently submits a budget of estimated expenditures and revenues to the City Council by June 1.

Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City. The Council is precluded from passing the Budget Ordinance (second reading) until ten days have passed after the Ordinance publication and becomes effective upon approval by the Council. Budgeted amounts are as originally adopted or as amended by the City Council.

Budgetary Information

Annual budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles. Proprietary fund budgets are adopted on the modified accrual basis of accounting. All annual appropriations lapse at fiscal year end. The mayor submits the proposed budget to the Council no later than June 1. Council revises and adopts the budget no later than June 30. The budget ordinance establishes authorized appropriations at the department level of control. Amendments are adopted during the year as necessary to comply with KRS 91A.030.

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

5. Stewardship, Compliance and Accountability, Continued

Excess Expenditures

For the year ended June 30, 2011, expenditures exceeded appropriations in the following funds/departments. These overages were funded by excess revenues in other funds/departments and available fund balances.

<u>Department/Category</u>	<u>Excess of Actual Expenditures Over Budget</u>
General Fund:	
Public works	\$ 2,718
Debt service- interest	6,546
Capital outlay	76,482
Municipal Road Aid Fund:	
Public works	4,803
Debt service- interest	1,323

6. Restricted Assets

The City held certain assets restricted by bond loan covenants and assets restricted as to use, which consisted of the following at June 30, 2011:

	<u>Cash and Cash Equivalents</u>	<u>Certificates of Deposit</u>	<u>Total</u>
<u>Governmental Funds:</u>			
Restricted for:			
Capital projects	\$ 265,088	\$ -	\$ 265,088
Public Safety	16,500	-	16,500
Roads	421,666	-	421,666
Debt service	172,399	-	172,399
Total	<u>\$ 875,653</u>	<u>\$ -</u>	<u>\$ 875,653</u>
<u>Proprietary Funds:</u>			
Bond Sinking	\$ 93,876	\$ -	\$ 93,876
Operations and Maintenance	116,023	-	116,023
Debt Service Reserve	160,571	288,504	449,075
Capital projects	11,263	-	11,263
Meter Deposits	225,649	-	225,649
Total	<u>\$ 607,382</u>	<u>\$ 288,504</u>	<u>\$ 895,886</u>

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

7. Interfund Transfers

Interfund transfers during the year ended June 30, 2011 were as follows:

	Transfers In			
	General Fund	Municipal Road Aid Fund	Water Fund	Total
<u>Transfers Out</u>				
Sewer Fund	\$ 526,117	\$ 246,460	\$ 15,443	\$ 788,020
Total	<u>\$ 526,117</u>	<u>\$ 246,460</u>	<u>\$ 15,443</u>	<u>\$ 788,020</u>

These transfers are primarily used to move funds from the proprietary funds to the General Fund to assist in providing general governmental operations, public safety, public works, and parks and recreation services.

8. Capital Assets

Capital asset activity of the City for the year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
Governmental Activities:				
Non-depreciable:				
Land	\$ 609,836	\$ 112,000	\$ -	\$ 721,836
Construction in progress	16,796	-	-	16,796
Total non-depreciable capital assets	<u>626,632</u>	<u>112,000</u>	<u>-</u>	<u>738,632</u>
Depreciable:				
Administrative equipment	174,578	-	-	174,578
Ambulance equipment	5,400	-	-	5,400
Buildings and improvements	732,451	-	(1,176)	731,275
Community Center Building	1,553,721	-	-	1,553,721
Community Center Equipment	150,112	51,810	-	201,922
Dog warden equipment	24,850	-	-	24,850
Fire department equipment	817,972	59,998	-	877,970
Fire station	107,150	-	-	107,150
Infrastructure	1,030,997	256,804	-	1,287,801
Library equipment	-	68,322	-	68,322
Park projects	332,162	-	-	332,162
Police department equipment	1,275,218	51,080	(74,716)	1,251,582
Street equipment	364,188	17,688	(10,110)	371,766
Vehicles	169,050	-	-	169,050
Total depreciable capital assets	<u>6,737,849</u>	<u>505,702</u>	<u>(86,002)</u>	<u>7,157,549</u>
Less accumulated depreciation	<u>(2,545,471)</u>	<u>(372,151)</u>	<u>81,937</u>	<u>(2,835,685)</u>
Total depreciable, net	<u>4,192,378</u>	<u>133,551</u>	<u>(4,065)</u>	<u>4,321,864</u>
Governmental activities capital assets, net	<u>\$ 4,819,010</u>	<u>\$ 245,551</u>	<u>\$ (4,065)</u>	<u>\$ 5,060,496</u>

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

8. Capital Assets, Continued

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2011</u>
Business-type Activities:				
Non-depreciable:				
Land	\$ 90,170	\$ -	\$ -	\$ 90,170
Total non-depreciable capital assets	<u>90,170</u>	<u>-</u>	<u>-</u>	<u>90,170</u>
Depreciable:				
Facilities plant	25,234	-	-	25,234
Buildings and improvements	62,843	-	-	62,843
Machinery and equipment	153,212	17,100	-	170,312
Meters	611,562	123,364	-	734,926
Office equipment	149,612	-	-	149,612
Tanks/towers	544,548	-	-	544,548
Water lines	1,616,805	-	-	1,616,805
Water plant	1,376,669	-	-	1,376,669
Vehicles	214,433	-	-	214,433
Total depreciable assets	4,754,918	140,464	-	4,895,382
Less accumulated depreciation	<u>(2,244,826)</u>	<u>(171,557)</u>	<u>-</u>	<u>(2,416,383)</u>
Total depreciable, net	<u>2,510,092</u>	<u>(31,093)</u>	<u>-</u>	<u>2,478,999</u>
Business-type activities capital assets, net	<u>\$ 2,600,262</u>	<u>\$ (31,093)</u>	<u>\$ -</u>	<u>\$ 2,569,169</u>

For the year ended June 30, 2011, depreciation on capital assets was charged to the government functions as follows:

Governmental activities:	
General fund	\$ 47,959
Municipal road aid	36,013
Public safety	187,354
Public works	16,547
Parks and recreation	<u>84,278</u>
Total depreciation expense	<u>\$ 372,151</u>
Business-type activities:	
Water	\$ 164,750
Sewer	<u>6,807</u>
Total depreciation expense	<u>\$ 171,557</u>

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

9. Long-term Liabilities

The following is a summary of long-term debt transactions for the City for the year ended June 30, 2011:

	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011	Due Within One Year
<u>Governmental Activities:</u>					
General obligation bonds	\$ 860,000	\$ -	\$ (45,000)	\$ 815,000	\$ 45,000
Notes payable	723,885	-	(230,521)	493,364	233,201
Leases	8,732,826	59,998	(433,894)	8,358,930	462,687
Total governmental activities	<u>10,316,711</u>	<u>59,998</u>	<u>(709,415)</u>	<u>9,667,294</u>	<u>\$ 740,888</u>
<u>Business-Type Activities:</u>					
<u>Water Fund</u>					
Revenue bonds	360,000	-	(11,630)	348,370	12,140
Notes payable	242,720	-	(25,385)	217,335	25,767
Total water fund	<u>602,720</u>	<u>-</u>	<u>(37,015)</u>	<u>565,705</u>	<u>37,907</u>
<u>Sewer Fund</u>					
Revenue bonds	2,810,000	-	(133,000)	2,677,000	140,000
Notes payable	440,000	-	(440,000)	-	-
Total sewer fund	<u>3,250,000</u>	<u>-</u>	<u>(573,000)</u>	<u>2,677,000</u>	<u>140,000</u>
Total business-type activities	<u>3,852,720</u>	<u>-</u>	<u>(610,015)</u>	<u>3,242,705</u>	<u>\$ 177,907</u>
Total long-term liabilities	<u>\$ 14,169,431</u>	<u>\$ 59,998</u>	<u>\$ (1,319,430)</u>	<u>\$ 12,909,999</u>	

Revenue Bonds

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond Funds. Remaining revenues may then be used for any lawful purpose.

In accordance with the bond issue from the Kentucky Infrastructure Authority Fund B, a Repair and Maintenance Fund was to be established. Annual revenues equaling ten percent of the annual debt service on this loan were to be set aside in a repair and maintenance fund until such fund has a balance equal to five percent of the original loan amount. At June 30, 2011, the required balance was \$24,915. The City is in compliance with this requirement.

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

9. Long-term Liabilities, Continued

Long-term debt payable at June 30, 2011, is comprised of the following:

Governmental Activities:

Bonds	Interest Rate	Final Maturity Date	Balance June 30, 2011
General Obligation Bonds Series 2005	3.00%	2025	\$ 815,000
Total bonds			815,000
<u>Notes payable</u>			
Planters Bank- Corneal Lane Bridge	5.90%	2013	103,347
Planters Bank- Hugh Hunter	5.90%	2013	213,910
Planters Bank- City Hall	4.00%	2013	176,107
Total notes payable			493,364
<u>Leases Payable</u>			
Emergency Onc, Inc.- Fire Truck	4.95%	2013	37,483
Leasing One:			
Vehicles	4.00%	2012	40,119
Fire Equipment	4.00%	2012	28,319
Tractor	4.00%	2012	21,696
Vehicle	4.40%	2016	26,491
Vehicle	5.67%	2013	25,767
Kentucky League of Cities:			
Community Center	Variable (1)	2024	1,792,805
Convention Center 2005	Variable (1)	2034	2,133,462
Convention Center 2009	Variable (1)	2029	4,252,788
Total leases payable			8,358,930
Total governmental activities			9,667,294

(1) Variable-rate interest is determined by remarketing agents based on LIBOR variable index rate. Rate at June 30, 2011 was 0.24%.

Business-type Activities:

Water Fund:

Bonds	Interest Rate	Final Maturity Date	Balance June 30, 2011
U.S. Department of Agriculture	4.375%	2028	\$ 348,370
Total bonds			348,370
<u>Notes payable</u>			
Kentucky Infrastructure Authority- B	1.50%	2019	217,335
Total notes payable			217,335
Total water fund			565,705

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

9. Long-term Liabilities, Continued

Business-type Activities:

Sewer Fund:

<u>Bonds</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Balance June 30, 2011</u>
1998 Waterworks Revenue & Revenue Refunding Bonds	3.75 - 4.90%	2021	\$ 730,000
2001 H Kentucky Rural Water Finance	3.125 - 4.50%	2025	450,000
2002 B Kentucky Rural Water Finance	2.285 - 4.405%	2029	1,497,000
Total bonds			<u>2,677,000</u>
Total sewer fund			<u>2,677,000</u>
Total business-type activities			<u>3,242,705</u>
Total long-term debt			<u>\$ 12,909,999</u>

Assets under Capital Leases

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 inception. Amortization expenses related to the capital leases are included in depreciation expense. The following assets are recorded under capital leases:

<u>Governmental Activities:</u>	<u>Original Purchase Price</u>	<u>Present Value of Minimum Lease Payments</u>
Fire truck	\$ 143,500	\$ 37,483
4 Vehicles	152,587	40,119
Fire Equipment	107,920	28,319
Tractor	66,125	21,696
Vehicle	29,231	26,491
Vehicle	30,767	25,767
Community Center	2,000,000	1,792,805
Convention Center (Sub-leased to the City of Oak Grove Recreational, Tourist and Convention Commission):		
2005 Lease	2,500,000	2,133,462
2009 Lease	4,500,000	4,252,788
	<u>\$ 9,530,130</u>	<u>\$ 8,358,930</u>

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

9. Long-term Liabilities, Continued

Annual Requirements to Retire Debt Obligations

The annual requirements to retire debt obligations in the governmental activities are as follows:

Year Ending June 30	Governmental Activities		Total Debt Service
	Principal	Interest	
<u>Bonds</u>			
2012	\$ 45,000	\$ 34,505	\$ 79,505
2013	45,000	32,795	77,795
2014	50,000	31,085	81,085
2015	50,000	29,185	79,185
2016	50,000	27,285	77,285
2017-2021	295,000	102,195	397,195
2022-2025	280,000	32,175	312,175
Total Bonds	815,000	289,225	1,104,225
<u>Notes</u>			
2012	225,304	21,676	246,980
2013	210,905	9,929	220,834
2014	57,155	1,143	58,298
Total Notes	493,364	32,748	526,112
<u>Leases</u>			
2012	462,687	180,245	642,932
2013	386,401	169,333	555,734
2014	363,141	159,838	522,979
2015	377,180	151,659	528,839
2016	388,226	143,444	531,670
2017-2021	2,160,585	583,290	2,743,875
2022-2026	2,265,960	333,100	2,599,060
2027-2031	1,619,909	110,569	1,730,478
2032-2034	334,841	10,900	345,741
Total Leases	8,358,930	1,842,378	10,201,308
Total	\$ 9,667,294	\$ 2,164,351	\$ 11,831,645

9. Long-term Liabilities, Continued

Annual Requirements to Retire Debt Obligations, Continued

The annual requirements to retire debt in the business-type activities are as follows:

Year Ending June 30	Business-type Activities		Total Debt Service
	Principal	Interest	
<u>Bonds</u>			
2012	\$ 152,140	\$ 132,158	\$ 284,298
2013	154,670	126,168	280,838
2014	162,220	119,714	281,934
2015	171,800	112,874	284,674
2016	191,400	105,604	297,004
2017-2021	1,063,030	397,472	1,460,502
2022-2026	720,630	183,714	904,344
2027-2030	409,480	39,679	449,159
Total Bonds	<u>3,025,370</u>	<u>1,217,383</u>	<u>4,242,753</u>
<u>Notes</u>			
2012	25,767	3,164	28,931
2013	26,155	2,776	28,931
2014	26,549	2,382	28,931
2015	26,949	1,982	28,931
2016	27,355	1,576	28,931
2017-2019	84,560	2,234	86,794
Total Notes	<u>217,335</u>	<u>14,114</u>	<u>231,449</u>
Total	<u>\$ 3,242,705</u>	<u>\$ 1,231,497</u>	<u>\$ 4,474,202</u>

10. Employee Retirement System

The City has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to be allocated as follows: 5% will go to the participants account and 1% will go to the KRS insurance fund. The City's contribution rate for nonhazardous employees was 16.93 percent.

10. Employee Retirement System, Continued

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The City's contribution rate for hazardous employees was 33.25 percent.

The City's contributions for the fiscal years ending June 30 were as follows:

Year	Amount
2011	\$ 317,620
2010	282,802
2009	271,381

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months of service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, nonhazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

CITY OF OAK GROVE, KENTUCKY

Notes to Financial Statements

June 30, 2011

10. Employee Retirement System, Continued

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502)564-4646.

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 is authorized under KRS 18A.230 to 18A.275 to provide administration of 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 all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

12. Contributed Capital

The City accepts the maintenance responsibility of the water and sewer lines and streets one year after completion of any new subdivision. At that time, the City records the water and sewer lines and roads as contributed capital. There was no contributed capital additions in the fiscal year ended June 30, 2011.

13. Significant Financial Influence

The City is located adjacent to Fort Campbell Military Base. Significant changes in operations or size of the base or its personnel could have a financial effect upon the City. Management is not aware of any plans by the Federal Government for significant changes to the military base.

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

14. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these types of risk, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance coverage consisted of \$1,000,000 in general liability insurance and an additional \$1,000,000 umbrella coverage as of June 30, 2011. Coverage for property risk was \$9,125,124, not including vehicles which were insured based on fair value.

15. Note Receivable

Business-type Activities: During the year ended June 30, 2008, the City of Oak Grove entered into an agreement to sell the City's sewer plant to the Hopkinsville Sewerage and Water Works Commission ("HWEA"). The total sale price amounted to \$7,218,184 which included cash payments of \$3,627,600 and debt assumption by HWEA of \$3,590,584. The cash portion of the sale agreement was financed over a period of four years. A summary of the activity for the fiscal year ended June 30, 2011 follows:

	Cash Financing	Debt Assumption	Total
Note Balance at July 1, 2010	\$ 1,576,042	\$ 3,250,000	\$ 4,826,042
Less: Payments received during the fiscal year	788,020	178,000	966,020
Less: Release of City of Oak Grove by lender of liability and transfer to HWEA during fiscal year	-	395,000	395,000
Less: Adjustment per agreement	170,838	-	170,838
Note Balance at June 30, 2011	<u>\$ 617,184</u>	<u>\$ 2,677,000</u>	<u>\$ 3,294,184</u>
Presented on the statement of net assets under the following captions:			
Due from HWEA:			
Due within one year	\$ 617,184	\$ 140,000	\$ 757,184
Due in more than one year	-	2,537,000	2,537,000
	<u>\$ 617,184</u>	<u>\$ 2,677,000</u>	<u>\$ 3,294,184</u>

16. Commitments

On May, 2, 2000, the City entered into an agreement (effective January 1, 2003) with the Logan Todd Regional Water 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 \$59,411.30 for the first 25,831,000 gallons per month and an additional \$2.30 per 1,000 gallons of all water in excess. The agreement covers a period of 50 years which expires in 2053.

17. Contingencies

Under the terms of federal and state grants, periodic audits are required and 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 be immaterial.

The City of Oak Grove is primary obligor on several loans and financing instruments which were assumed by the Hopkinsville Sewerage and Water Works Commission ("HWEA") during the fiscal year ending June 30, 2008. These debt obligations were assumed by "HWEA" in connection with the sale by the City of Oak Grove of its sewer plant and related equipment to "HWEA". At June 30, 2011 the outstanding balance of the debt assumed was \$2,677,000. This debt was assumed as part of the sale to "HWEA"; however, the City of Oak Grove remains primarily liable on the debt instruments and could potentially be liable for the unpaid balance on these debts if "HWEA" were to default on its agreement with the City of Oak Grove.

18. Tourism Convention Center

Effective September 27, 2005 the City of Oak Grove executed a long-term lease with the Kentucky League of Cities Funding Trust related to a new Convention Center. The lease agreement requires 344 monthly payments beginning October 1, 2005 and ending May 1, 2034. The Convention Center was subleased on September 27, 2005 to the City of Oak Grove Recreational, Tourist and Convention Commission for rental payments equal to the rental payments payable by the City of Oak Grove under the terms of its lease dated September 25, 2005.

Effective October 2, 2009 the City of Oak Grove executed a second long term lease with the Kentucky League of Cities Funding Trust related to the new Convention Center. The lease agreement requires 240 monthly payments beginning November 1, 2009 and ending October 1, 2029. The Convention Center was sub-leased on October 2, 2009 to the City of Oak Grove Recreational, Tourist and Convention Commission for rental payments equal to the rental payments payable by the City of Oak Grove under the terms of its lease dated October 2, 2009.

19. Change in Accounting Principles

The City implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* which has altered the classification of fund balance on the governmental fund financial statements. The implementation did not cause a restatement of beginning fund balance or beginning net assets.

CITY OF OAK GROVE, KENTUCKY
Notes to Financial Statements
June 30, 2011

20. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through March 29, 2013, the date the financial statements were available to be issued.

The Oak Grove City Council passed a resolution dated October 18, 2011 accepting a loan award of \$1,000,000 and approving the loan agreement with the Kentucky Infrastructure Authority to finance infrastructure projects for the Oak Grove utility system.

The Oak Grove City Council approved on November 15, 2011 the construction of a new building for Emergency Medical Services in the amount of \$625,860. The City Council also approved on June 19, 2012 the purchase of land for approximately \$604,000 and equipment for \$83,867.

The Oak Grove City Council approved on July 18, 2012 the financing of the Emergency Medical Services, Animal Control and Public Works buildings in the amount of \$1,200,000.

The City of Oak Grove purchased land and financed it with a loan from Planters Bank on August 28, 2012 in the amount of \$235,500. This loan requires four quarterly payments of principal and interest with a balloon payment of \$224,257.80 on November 2, 2013.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF OAK GROVE, KENTUCKY
Statement of Revenues, Expenditures, and
Changes in Fund Balance- Budget and Actual- Budgetary Basis
General Fund
For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual	Favorable
	Original	Final		(Unfavorable)
				Variance with
				Final Budget
REVENUES				
Taxes and licenses	\$ 3,769,865	\$ 3,369,180	\$ 3,449,132	\$ 79,952
Charges for Services	143,500	155,754	184,704	28,950
Grants	77,650	75,240	80,417	5,177
Intergovernmental Revenue	25,000	17,180	21,318	4,138
Interest Income	23,000	25,500	42,952	17,452
Miscellaneous	346,700	324,510	239,160	(85,350)
Total Revenues	4,385,715	3,967,364	4,017,683	50,319
EXPENDITURES				
Current:				
General Government	670,450	703,307	605,243	98,064
Public Safety	2,102,245	2,008,320	1,949,557	58,763
Public Works	304,900	315,085	317,803	(2,718)
Parks and Recreation	254,075	271,237	250,494	20,743
Transfers to Tourism Commission	922,465	880,000	856,054	23,946
Debt Service:				
Principal	407,730	535,850	476,771	59,079
Interest and Other Charges	107,750	76,400	82,946	(6,546)
Capital Outlays	611,100	283,240	359,722	(76,482)
Total Expenditures	5,380,715	5,073,439	4,898,590	174,849
Excess (Deficiency) of Revenues Over Expenditures	(995,000)	(1,106,075)	(880,907)	(124,530)
OTHER FINANCING SOURCES:				
Debt proceeds	-	-	59,998	59,998
Sale of Municipal Property	-	788,920	900	(788,020)
Transfers in	1,195,000	469,755	526,117	56,362
Total Other Financing Sources	1,195,000	1,258,675	587,015	(671,660)
Net Change in Fund Balances	200,000	152,600	(293,892)	(446,492)
Fund Balances - Beginning of year	(178,710)	1,852,008	3,214,904	1,362,896
Fund Balances - End of year	\$ 21,290	\$ 2,004,608	\$ 2,921,012	\$ 916,404

CITY OF OAK GROVE, KENTUCKY
Statement of Revenues, Expenditures, and
Changes in Fund Balance- Budget and Actual- Budgetary Basis
Municipal Road Aid Fund
For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance with Final Budget
	Original	Final		
REVENUES				
Taxes and licenses	\$ -	\$ -	\$ -	\$ -
Charges for Services	-	-	-	-
Grants	-	-	-	-
Intergovernmental Revenue	130,000	157,000	162,825	5,825
Interest Income	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	130,000	157,000	162,825	5,825
EXPENDITURES				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	21,075	25,878	(4,803)
Parks and Recreation	-	-	-	-
Transfers to Tourism Commission	-	-	-	-
Debt Service:				
Principal	-	26,555	23,035	3,520
Interest and Other Charges	-	-	1,323	(1,323)
Capital Outlays	130,000	261,970	256,804	5,166
Total Expenditures	130,000	309,600	307,040	2,560
Excess (Deficiency) of Revenues Over Expenditures	-	(152,600)	(144,215)	3,265
OTHER FINANCING SOURCES:				
Debt proceeds	-	-	-	-
Sale of Municipal Property	-	-	-	-
Transfers in	-	-	246,460	246,460
Total Other Financing Sources	-	-	246,460	246,460
Net Change in Fund Balances	-	(152,600)	102,245	254,845
Fund Balances - Beginning of year	234,192	203,474	261,489	58,015
Fund Balances - End of year	<u>\$ 234,192</u>	<u>\$ 50,874</u>	<u>\$ 363,734</u>	<u>\$ 312,860</u>

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

McELROY, MITCHELL & ASSOCIATES, LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

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*

PARTNERS

S. MARTIN McELROY, JR., CPA
ROBERT E. MITCHELL, CPA, CVA

ASSOCIATES

ERICK SUDDOTH, CPA, CrFA
LAURA MINOR, CPA
TODD BOWLEY
SHERRI BLACKBURN

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Oak Grove, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City of Oak Grove, Kentucky's basic financial statements and have issued our report thereon dated March 29, 2013. Our report was modified to include a reference to other auditors. 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. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Oak Grove, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures 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 of Oak Grove, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Oak Grove, Kentucky's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting [A-1 and A-2]. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Oak Grove, Kentucky'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*.

The City of Oak Grove, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Oak Grove's responses and accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the City of Oak Grove, Kentucky, in a separate letter dated March 29, 2013.

This report is intended for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

M. E. Elroy, Mitchell & Associates, LLP

Morganfield, Kentucky
March 29, 2013

Schedule of Findings and Responses
For the year ended June 30, 2011

A-1 Control Risk Related to Lack of Segregation of Duties

Due to a limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust in employees is necessitated.

Criteria: Each key step of an accounting system should be segregated amongst employees. Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition.

Effect: The staff size of the City limits the ability to rotate duties and implement some checking procedures. This limitation may affect the ability to record, process, summarize and report financial data.

Recommendation: We recommend that management always be mindful of key functions assigned to employees, segregate key functions and provide oversight in all steps of the accounting system

Response: Management concurs with the recommendation and continually takes steps to separate functions and provide oversight where needed.

A-2 Control Risk Related to Lack of Qualifications to Fulfill Assigned Functions

The auditors, from the City of Oak Grove's books of original entry, prepare the financial statements and notes for the City of Oak Grove, Kentucky.

Criteria: Internal controls should be put in place for the City of Oak Grove to review and approve generally accepted accounting principles (GAAP) financial statements and notes.

Effect: Based upon the entity's present financial statements, the City of Oak Grove's auditors are currently preparing the audit financial statements and notes.

Recommendation: Procedures should be implemented to allow the City of Oak Grove to prepare their own GAAP financial statements and notes.

Response: Management is aware of the situation regarding the preparation of GAAP financial statements and has contracted with third parties to assist in the review and acceptance of the financial statements.