2016

CITY OF GROVE, OKLAHOMA
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016

LIVING THE GRAND LIFE!

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CITY OF GROVE, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
June 30, 2016

MAYOR AND CITY COUNCIL

Marty Follis	Mayor, Ward 2
Ed Trumbull	Vice Mayor, Ward 1
Don Nielson	Ward 3
Martin Dyer	Ward 4
Ivan Devitt	At-large Councilman

ADMINISTRATION

Bill Keefer	City Manager
Debbie Bottoroff	Assistant City Manager
Lisa Allred	City Treasurer
Bonnie Buzzard	City Clerk
Darren Cook	City Attorney
Mike Reed	Fire Chief
Mark Morris	Police Chief
Jack Bower	Director, Public Works
Lisa Jewett	Airport Manager
Craig Criger	Superintendent, Buildings and Grounds

Anne Marie Elfrink, MS, CPA

Member of the AICPA, OSCPA, and GFOA

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Grove, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Grove, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grove, Oklahoma, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the pension plan and other post-employment benefits funding schedules, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grove, Oklahoma's basic financial statements. The other information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The other information as listed in the Table of Contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the other information, which includes the schedule of expenditures of federal awards, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 15, 2016, on my consideration of the City of Grove, Oklahoma's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Grove, Oklahoma's internal control over financial reporting and compliance.

Anne Marie Elfrink, MS, CPA

Anne Marie Elfrink, MS, CPA
Tulsa, Oklahoma
December 15, 2016

Management of the City of Grove provides this discussion and analysis of the City of Grove's financial performance as an overview of the city's financial activities for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the city's financial statements, which follow.

Financial Highlights

- Total net position of the city increased by $4,654,745 or 11.5% from the prior year. This increase is largely due to capital assets acquired at the airport and Wolf Creek recreation area financed by federal and state grants.
- The city's governmental activities net position increased by $1,070,972 or 8.2% due primarily to continued strong budgetary controls and slightly higher tax receipts.
- Net position of the business-type activities increased by $3,583,773 or 13.0%, due to the transfer of capital grant project revenues from the City and increased water, sewer and natural gas transportation rates.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the city's basic financial statements. The city's basic financial statements include (or 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 additional required supplementary information (pension information and budgetary schedules) and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the city's finances, in a manner similar to private-sector business. The statements are prepared using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid. The government-wide financial statements include the following:

The *statement of net position* presents information on all of the city's assets and deferred outflows, and liabilities and deferred inflows, with the difference between the four reported *as net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (i.e. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the city that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The *governmental activities* of the city include administrative, culture and recreation, public safety, community development, and streets. The *business-type activities* of the city include three enterprise activities: the water system, the sewer system, and the sanitation system.

The government-wide financial statements include the City of Grove, the Grove Municipal Services Authority (GMSA), Grove Municipal Airport Managing Authority (GMAMA), and the Grove Economic Development Authority (GEDA) (all blended component units) which comprise the primary government.

The government-wide financial statements can be found immediately following this discussion and analysis on pages 14-15 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The city, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the city can be divided into two 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 the 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 governments' near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

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

The City reports twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, and Capital Improvement Fund, which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found immediately following the government-wide statements on pages 16-19

Proprietary funds. These funds are used to report activities that operate like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The city uses one enterprise fund to account for the operations of its natural gas, water, sanitary sewer, and sanitation services, one fund to account for the operation of its airport, and another fund to account for its economic development activities. These funds are considered major proprietary funds for presentation purposes. The basic proprietary funds financial statements can be found immediately following the governmental funds financial statements on pages 20-22.

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. The notes to the financial statements can be found immediately following the fund financial statements, beginning on page 23.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the city's pension plan and the budgets for each major fund. A budgetary comparison statement has been provided for each major governmental fund to demonstrate compliance with these budgets. Required supplementary information can be found immediately following the notes to the financial statements beginning on page 47.

Other Information. The combining statements referred to earlier as well as schedules of revenue debt coverage and federal expenditures are presented following the required supplementary information beginning on page 55.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Net position is the difference between total assets plus total deferred outflows of resources less total liabilities and deferred inflows of resources and is an indicator of the current fiscal health of the City. For the year ended June 30, 2016, the City's combined net position increased by $4.7 million. The following table provides a summary of the city's net position:

Summary of Net Position
(Table 1 - In millions)

	Governmental Activities		Business Type Activities		Total		Total % Change
	2016	2015	2016	2015	2016	2015	2015-2016
Current and other assets	$ 6.1	$ 5.5	$ 10.4	$ 9.0	$ 16.5	$ 14.5	14%
Capital assets	10.9	10.5	45.6	43.2	56.5	53.7	5%
Total assets	17.0	16.0	56.0	52.2	73.0	68.2	7%
Deferred outflows of resources	1.0	0.6	0.2	0.1	1.2	0.7	71%
Long-term debt outstanding	0.2	0.3	22.5	19.1	22.7	19.4	17%
Other liabilities	2.9	2.4	2.3	2.9	5.2	5.3	-2%
Total liabilities	3.1	2.7	24.8	22.0	27.9	24.7	13%
Deferred inflows of resources	0.8	0.9	0.3	2.8	1.1	3.7	-70%
Net position							
Net investment in capital	10.6	10.3	25.5	23.9	36.1	34.2	6%
Restricted	0.1	3.0	2.5	0.9	2.6	3.9	-33%
Unrestricted	3.4	(0.3)	3.1	2.7	6.5	2.4	171%
Total net position	$ 14.1	$ 13.0	$ 31.1	$ 27.5	$ 45.2	$ 40.5	12%

The table above reflects an increase of 8.5% for governmental activities net position and an increase of approximately 13.1% for business-type activities. The City's overall financial position improved during fiscal year 2016.

The City's governmental activities net position increased by $1.1 million, primarily due to the receipt of capital grant and dedicated sales tax revenues for which the revenues are recognized but the expenses are capitalized.

The net position of the City's business type activities increased by $3.6 million. The increase was due to stronger operational results that included increased water revenues targeted at amortizing debt related to a significant water treatment project that was initiated during the year.

The following table provides a summary of the City's changes in net position:

Summary of Changes in Net Position
Table 2 (In millions)

	Governmental Activities		% Inc. (Dec.)	Business Type Activities		% Inc. (Dec.)	Total		Total % Change
	2016	2015		2016	2015		2016	2015	2015-2016
Revenues:									
Program revenues									
Charges for services	$ 0.6	$ 0.4	50%	$ 9.0	$ 9.1	-1%	$ 9.6	$ 9.5	1%
Operating grants and contributions	0.1	0.1	0%	-	-	-	0.1	0.1	0%
Capital grants and contributions	-	-		-	-	-	-	-	
General revenues									
Sales and use taxes	6.0	5.9	2%	0.7	0.7	-	6.7	6.6	2%
Other taxes	0.4	0.2	100%	0.1	-	-	0.5	0.2	150%
Intergovernmental revenue	4.1	2.1	95%	-	-	-	4.1	2.1	95%
Other	0.2	0.3	-33%	-	0.5	-100%	0.2	0.8	-75%
Total revenues	11.4	9.0	27%	9.8	10.3	-5%	21.2	19.3	10%
Expenses:									
General government	0.9	0.7	29%	-	-	-	0.9	0.7	29%
Public safety and judiciary	2.6	2.2	18%	-	-	-	2.6	2.2	18%
Public works	1.8	2.0	-10%	-	-	-	1.8	2.0	-10%
Culture, parks, recreation & promotion	0.7	0.7	0%	-	-	-	0.7	0.7	0%
Utilities operations	-	-	-	9.2	9.6	-4%	9.2	9.6	-4%
Airport operations	-	-	-	0.7	0.6	17%	0.7	0.6	17%
Economic development operations	-	-	-	0.6	0.4	50%	0.6	0.4	50%
Total expenses	6.0	5.6	7%	10.5	10.6	-1%	16.5	16.2	2%
Increase in net position before transfers & extraordinary items	5.4	3.4	59%	(0.7)	(0.3)	133%	4.7	3.1	52%
Transfers, net	(4.3)	(2.5)	72%	4.3	2.5	72%	-	-	
Extraordinary and nonrecurring items	-	-		-	-		-	-	
Change in net position	$ 1.1	$ 0.9	22%	$ 3.6	$ 2.2	64%	$ 4.7	$ 3.1	52%

The results of 2016 were shaped largely by a continued slow but steady growth in the local economy. Total net position increased by 11.5% or $4.7 million. Significant changes were related to:

Governmental Activities:

- Capital grants and intergovernmental revenue restricted for capital projects.
- Governmental fund expenses increased 7% in part due to timing differences in the recognition of pension expense and higher personnel costs.
- Net transfers increased by $1.8 million reflecting increased transfers related to capital grant activity

Business-type Activities:

- Charges for services decreased due to lower natural gas revenues reflecting lower energy costs in the current year, somewhat offset by higher water, sewer, and gas transportation rates.
- Operations and maintenance expense was slightly lower primarily due to lower gas purchase costs.

Governmental Activities:

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Table 3 presents the cost of each of the City's four largest programs—public safety and judiciary (police, fire, and court), general government, public works (streets), cultural (parks, library, cemetery, and senior citizens. The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

Governmental Activities
Table 3
(In Thousands)

	Total Cost of Services		%	Net (Expense) Revenue from Services		%
	2016	2015		2016	2015	
General government	$ 885	$ 657	35%	$ (849)	$ (591)	44%
Public safety and judiciary	2,650	2,192	21%	(2,458)	(1,751)	40%
Public works	1,792	1,966	-9%	(1,792)	(1,947)	-8%
Cultural, parks, recreation	643	741	-13%	(241)	(741)	-67%
	$ 5,970	$ 5,556	7%	$ (5,340)	$ (5,030)	6%

Overall, the city's governmental activities' total costs increased 7% over last year and net costs increased by 6%. The explanations on the previous page account for the majority of decreases in total costs of services as well as net costs of services in the governmental activities

Business-type Activities:

Overall, total cost of services for the city's business-type activities decreased 1% from last year.

Business-Type Activities
Table 4
(In Thousands)

	Total Cost of Services		%	Net (Expense)Revenue from Services		%
	2016	2015		2016	2015	
Utilities operations	$ 9,147	$ 9,619	-5%	$ (737)	$ (995)	-26%
Airport operations	697	566	23%	(234)	(128)	83%
Economic development	647	443	46%	(569)	(365)	56%
	$ 10,491	$ 10,628	-1%	$ (1,540)	$ (1,488)	3%

The City's Funds

The General Fund is the city's primary operating fund and the source of day-to-day operations. The fund balance increased by $655,626, or 40.7 percent from the prior year.

General Fund Budgetary Highlights

The general fund budget changed only slightly from the original one approved in June 2015. General Fund actual expenditures were below budgeted appropriations by $411,470, reflecting lower expenditures than originally projected in nearly every functional area. Actual revenues were higher than budgeted by $544,156, primarily due to higher sales, use, and franchise taxes than expected.

Capital Asset and Debt Administration

At the end of June 30, 2016, the city had $56.3 million invested in capital assets including police and fire equipment, buildings, park facilities, streets and drainage systems, and gas, water, and sewer infrastructure. Additions to capital assets included Wolf Creek Park improvements, airport runway and terminal improvements, water and sewer line improvements, and purchase of street, fire, and police equipment, Information on capital assets is located in Note 3.D.

Capital Assets
Table 5
Net of Accumulated Depreciation
(In millions)

	Governmental Activities		Business-type Activities		Totals		Total % Change
	2016	2015	2016	2015	2016	2015	
Non-Depreciable Assets							
Land	$ 0.4	$ 0.4	$ 1.9	$ 1.9	$ 2.3	$ 2.3	0%
Construction-in-progress	0.7	0.6	1.0	2.9	1.7	3.5	-51%
Depreciable Assets							
Buildings	11.8	11.5	23.5	17.0	35.3	28.5	24%
Equipment and furniture	3.3	2.9	5.3	5.3	8.6	8.2	5%
Vehicles	2.2	2.3	0.5	0.5	2.7	2.8	-4%
Infrastructure	2.9	2.5	38.4	38.2	41.3	40.7	1%
Accumulated Depreciation	(10.4)	(9.6)	(25.1)	(22.6)	(35.5)	(32.2)	10%
Totals	$ 10.9	$ 10.6	$45.5	$43.2	$ 56.4	$ 53.8	5%

Debt Administration

At year-end, the city had $22.7 million in outstanding notes, bonds and capital leases. Additional debt information can be found in note 3.F.

These debts are further detailed below as follows:

Outstanding Debt
Table 6
(in millions)

	Governmental Activities		Business-type Activities		Total		Total % Change
	2016	2015	2016	2015	2016	2015	
Notes Payable	$ -	$ -	$ 22.5	$ 22.1	$ 22.5	$ 22.1	2%
Capital Leases	0.2	0.3	-	0.1	0.2	0.4	-50%
Totals	$ 0.2	$ 0.3	$ 22.5	$ 22.2	$ 22.7	$ 22.5	1%

Economic Factors and Next Year's Budget

The City of Grove expects the economy to remain essentially flat for next year, with the primary source of increased receipts to meet increasing costs coming from increased utility revenues. Management will continue to strive for fiscal conservativeness while developing plans to improve the systems and operations needed to meet citizens' needs.

The fiscal year 2016-2017 government–wide budget of $34.7million is a decrease of 10.3% over the prior year primarily due the completion of major capital projects that included grant funds: Wolf Creek Park, new airport terminal, and the new airport taxiway and apron. This budget does include increases for personnel costs such as salaries and benefits.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Grove's finances and to show the city's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Treasurer, City of Grove, 104 W. 3rd, Grove, OK 74344 or phone (918) 786-6107.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
    - Governmental funds
    - Proprietary (enterprise) funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

City of Grove, Oklahoma
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	$ 2,926,951	$ 2,923,583	$ 5,850,534
Cash and cash equivalents - restricted	-	2,876,206	2,876,206
Due from other governments	2,313,193	-	2,313,193
Accounts receivable, net	4,060	892,303	896,363
Prepaid expenses	2,246	30,334	32,580
Inventory	-	793,431	793,431
Due from other funds	845,934	139,912	985,846
TIF receivable, current - restricted	-	35,000	35,000
Total current assets	6,092,384	7,690,769	13,783,153
Noncurrent Assets:			
Land held for sale	-	390,360	390,360
Restricted assets:			
TIF receivable, net of current portion	-	2,340,000	2,340,000
Capital assets:			
Land and construction in progress	1,131,975	2,889,119	4,021,094
Depreciable buildings, property, and equipment, net	9,718,259	42,665,216	52,383,475
Total noncurrent assets	10,850,234	48,284,695	59,134,929
Total assets	16,942,618	55,975,464	72,918,082
DEFERRED OUTFLOWS OF RESOURCES:			
Related to defined benefit pension plan	991,668	219,055	1,210,723
LIABILITIES:			
Current Liabilities:			
Accounts payable and accrued liabilities	397,589	286,047	683,636
Accrued interest payable	3,902	193,464	197,366
Due to other funds	489,851	495,995	985,846
Current portion of long-term debt	-	2,137,624	2,137,624
Total current liabilities	891,342	3,113,130	4,004,472
Noncurrent liabilities:			
Deposits subject to refund	-	911,536	911,536
Net pension liability	1,150,938	238,216	1,389,154
Accrued compensated absences	821,733	193,978	1,015,711
Noncurrent portion of long-term debt	213,061	20,349,011	20,562,072
Total non-current liabilities	2,185,732	21,692,741	23,878,473
Total liabilities	3,077,074	24,805,871	27,882,945
DEFERRED INFLOWS OF RESOURCES:			
Related to defined benefit pension plan	765,525	317,611	1,083,136
NET POSITION:			
Net investment in capital assets	10,637,173	25,447,700	36,084,873
Restricted by:			
Enabling legislation	87,527	-	87,527
External contracts	-	2,535,814	2,535,814
Unrestricted	3,366,987	3,087,523	6,454,510
Total net position	$ 14,091,687	$ 31,071,037	$ 45,162,724

See accompanying notes to the basic financial statements.

City of Grove, Oklahoma
Statement of Activities
For the fiscal year ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
General government	$ 885,290	$ 35,940	$ -	$ -	$ (849,350)	$ -	$ (849,350)
Public safety and judiciary	2,649,672	165,320	13,656	12,500	(2,458,196)	-	(2,458,196)
Public works	1,791,805	-	-	-	(1,791,805)	-	(1,791,805)
Cultural, parks, recreation and promotion	642,982	384,510	17,470	-	(241,002)	-	(241,002)
Total governmental activities	5,969,749	585,770	31,126	12,500	(5,340,353)	-	(5,340,353)
Business-type activities:							
Utilities	9,147,011	8,410,814	-	-	-	(736,197)	(736,197)
Airport	696,576	462,463	-	-	-	(234,113)	(234,113)
Economic development	646,981	77,785	-	-	-	(569,196)	(569,196)
Total business-type activities	10,490,568	8,951,062	-	-	-	(1,539,506)	(1,539,506)
Total primary government	$ 16,460,317	$ 9,536,832	$ 31,126	$ 12,500	(5,340,353)	(1,539,506)	(6,879,859)
Component Unit:							
Economic development	$ 657,501	$ 55,690	$ -	$ -			
Airport	639,352	512,819	-	-			
Total component unit	$ 1,296,853	$ 568,509	$ -	$ -			
General revenues:							
Taxes:							
Sales and use taxes					6,038,857	754,909	6,793,766
Franchise and public service taxes					383,814	-	383,814
Property tax					-	48,543	48,543
Intergovernmental revenue not restricted to specific programs					4,091,417	-	4,091,417
Investment income					53,397	49,497	102,894
Miscellaneous					117,265	-	117,265
Loss on disposition of assets					(3,095)	-	(3,095)
Total general revenues					10,681,655	852,949	11,534,604
Change in net position before transfers					5,341,302	(686,557)	4,654,745
Transfers - Internal activity					(4,270,330)	4,270,330	-
Change in net position					1,070,972	3,583,773	4,654,745
Net position - beginning*					13,020,715	27,487,264	40,507,979
Net position - ending					$ 14,091,687	$ 31,071,037	$ 45,162,724

See accompanying notes to the basic financial statements

City of Grove, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	$ 1,537,644	$ 1,343,399	$ 45,908	$ 2,926,951
Prepaid expenses	2,246	-	-	2,246
Receivables:				
Due from other governments	1,320,811	905,341	87,041	2,313,193
Accounts receivable, net	4,060	-	-	4,060
Due from other funds	-	845,934	-	845,934
Total assets	$ 2,864,761	$ 3,094,674	$ 132,949	$ 6,092,384
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accrued liabilities	$ 104,311	$ 286,897	$ 1,933	$ 393,141
Due to bondholders	4,448	-	-	4,448
Due to other funds	489,851	-	-	489,851
Total liabilities	598,610	286,897	1,933	887,440
Fund Balances:				
Restricted	-	-	87,527	87,527
Urestricted:				
Committed	-	2,807,777	6,400	2,814,177
Assigned	800,000	-	37,089	837,089
Unassigned	1,466,151	-	-	1,466,151
Total fund balances	2,266,151	2,807,777	131,016	5,204,944
Total liabilities and fund balances	$ 2,864,761	$ 3,094,674	$ 132,949	$ 6,092,384

See accompanying notes to the basic financial statements.

City of Grove, Oklahoma
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016

Fund balances of governmental funds	$	5,204,944
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of depreciation of $9,718,259		10,850,234
Some liabilities, including pension obligations, are applicable to future periods and, therefore, are not reported in the funds:		
Accrued compensated absences		(821,733)
Accrued interest payable		(3,902)
Net pension liability (measurement date is June 30, 2015)		(1,150,938)
Long term debt		(213,061)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to pensions		991,668
Deferred inflows of resources related to pensions		(765,525)
Net position of governmental activities	$	14,091,687

See accompanying notes to the basic financial statements

City of Grove, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2016

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 4,534,542	$ 1,888,129	$ -	$ 6,422,671
Intergovernmental	333,643	-	132,976	466,619
Grants	43,627	3,624,797	-	3,668,424
Licenses and permits	35,860	-	80	35,940
Charges for services	255,397	-	3,425	258,822
Fines and forfeitures	155,552	-	9,768	165,320
Rental income	125,688	-	-	125,688
Investment income	52,176	-	1,221	53,397
Miscellaneous	49,308	51,350	16,607	117,265
Total Revenues	5,585,793	5,564,276	164,077	11,314,146
Expenditures:				
General government	860,525	353	-	860,878
Public safety and judiciary	2,613,087	35,921	41,320	2,690,328
Public works	1,060,580	106,839	-	1,167,419
Cultural, parks, recreation and promotion	324,432	22,262	18,971	365,665
Capital outlay	-	1,364,624	-	1,364,624
Total Expenditures	4,858,624	1,529,999	60,291	6,448,914
Excess (deficiency) of revenues over expenditures	727,169	4,034,277	103,786	4,865,232
Other Financing Sources (Uses):				
Debt service:				
Principal retirement	-	(25,964)	(16,329)	(42,293)
Interest and fiscal charges	-	(1,190)	(1,952)	(3,142)
Transfers in	50,000	1,736,592	-	1,786,592
Transfers out	(121,543)	(5,890,506)	(85,166)	(6,097,215)
Total Other Financing Sources (Uses)	(71,543)	(4,181,068)	(103,447)	(4,356,058)
Net change in fund balances	655,626	(146,791)	339	509,174
Fund balances - beginning	1,610,525	2,954,568	130,677	4,695,770
Fund balances - ending	$ 2,266,151	$ 2,807,777	$ 131,016	$ 5,204,944

See accompanying notes to the basic financial statements

City of Grove, Oklahoma
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the fiscal year ended June 30, 2016

Net change in fund balances - total governmental funds	$	509,174
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the a		
Capital asset purchases capitalized		1,364,914
Capital asset transferred from business-type funds		40,293
Depreciation expense		(1,138,736)
Repayment of debt principal is an expenditure in the governmental funds, and debt issuance is considered an other financing source, but repayment reduces long-term liabilities in the Statement of Net Position:		
Principal payments on long term debt		42,293
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Accrued compensated absences		(76,982)
Accrued interest		(7,860)
Loss on asset dispositions		(3,095)
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense:		
Employer pension contributions		513,146
Cost of benefits earned net of employee contributions		(172,175)
Change in net position of governmental activities	$	1,070,972

See accompanying notes to the basic financial statements

City of Grove, Oklahoma
Statement of Net Position
Proprietary Funds
June 30, 2016

	Enterprise Funds			
	GMSA	GEDA	GMAMA	Total
ASSETS:				
Current Assets:				
Cash and cash equivalents	$ 2,760,049	$ 88,231	$ 75,303	$ 2,923,583
Accounts receivable, net	863,509	251	28,543	892,303
Due from other funds	139,912	-	-	139,912
Prepaid expense	22,020	-	8,314	30,334
Inventory	725,314	-	68,117	793,431
Restricted assets:				
TIF Receivable, current portion	-	35,000	-	35,000
Restricted cash and cash equivalents	340,392	2,535,814	-	2,876,206
Total current assets	4,851,196	2,659,296	180,277	7,690,769
Noncurrent Assets:				
Restricted assets:				
TIF Receivable, net of current portion	-	2,340,000	-	2,340,000
Land held for sale	-	390,360	-	390,360
Land and construction in progress	1,666,151	527,776	695,192	2,889,119
Other capital assets, net	34,469,969	3,599,579	4,595,668	42,665,216
Total noncurrent assets	36,136,120	6,857,715	5,290,860	48,284,695
Total assets	40,987,316	9,517,011	5,471,137	55,975,464
DEFERRED OUTFLOWS OF RESOURCES:				
Related to defined benefit pension plan	213,834	-	5,221	219,055
LIABILITIES:				
Current Liabilities:				
Accounts payable and accrued expenses	279,277	1,228	5,542	286,047
Accrued interest payable	148,134	45,330	-	193,464
Due to other funds	-	-	495,995	495,995
Current portion of long term obligations	1,727,624	410,000	-	2,137,624
Total current liabilities	2,155,035	456,558	501,537	3,113,130
Noncurrent liabilities:				
Accrued compensated absences	190,973	-	3,005	193,978
Deposits subject to refund	911,536	-	-	911,536
Net pension liability	232,009	-	6,207	238,216
Noncurrent portion of long-term obligations	14,669,011	5,680,000	-	20,349,011
Total noncurrent liabilities	16,003,529	5,680,000	9,212	21,692,741
Total liabilities	18,158,564	6,136,558	510,749	24,805,871
DEFERRED INFLOWS OF RESOURCES:				
Related to defined benefit pension plan	308,981	-	8,630	317,611
NET POSITION:				
Net investment in capital assets	19,739,485	417,355	5,290,860	25,447,700
Restricted for:				
Debt service	-	2,535,814	-	2,535,814
Unrestricted	2,994,120	427,284	(333,881)	3,087,523
Total net position	$ 22,733,605	$ 3,380,453	$ 4,956,979	$ 31,071,037

See accompanying notes to the basic financial statements

City of Grove, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the fiscal year ended June 30, 2016

	Enterprise Funds			
	GMSA	GEDA	GMAMA	Total
Operating revenues:				
Charges for services:				
Water	$ 2,924,558	$ -	$ -	$ 2,924,558
Gas	4,245,488	-	-	4,245,488
Wastewater/Sewer	535,995	-	-	535,995
Sanitation	552,663	-	-	552,663
Service fees	61,813	-	-	61,813
Pool fees	-	76,485	-	76,485
Fuel sales	-	-	387,554	387,554
Other	90,297	1,300	74,909	166,506
Total operating revenues	8,410,814	77,785	462,463	8,951,062
Operating expenses:				
Administration	1,648,193	-	-	1,648,193
Gas	2,864,706	-	-	2,864,706
Water	957,491	-	-	957,491
Wastewater/Sewer	708,751	-	-	708,751
Sanitation	514,392	-	-	514,392
Economic development	-	221,216	-	221,216
Airport	-	-	486,072	486,072
Depreciation and amortization	2,116,953	241,128	210,504	2,568,585
Total operating expenses	8,810,486	462,344	696,576	9,969,406
Operating income (loss)	(399,672)	(384,559)	(234,113)	(1,018,344)
Non-operating revenues (expenses):				
Taxes	754,909	48,543	-	803,452
Investment income	46,084	3,360	53	49,497
Debt issuance costs	-	(78,700)	-	(78,700)
Interest expense and fiscal charges	(336,525)	(105,937)	-	(442,462)
Total non-operating revenues (expenses)	464,468	(132,734)	53	331,787
Net income(loss) before transfers	64,796	(517,293)	(234,060)	(686,557)
Transfers in	54,803	4,385,697	1,571,549	6,012,049
Transfers out	-	(1,701,425)	(40,294)	(1,741,719)
Change in net position	119,599	2,166,979	1,297,195	3,583,773
Net position - beginning*	22,614,006	1,213,474	3,659,784	27,487,264
Net position - ending	$ 22,733,605	$ 3,380,453	$ 4,956,979	$ 31,071,037

*Restated

See accompanying notes to the basic financial statements

City of Grove, Oklahoma
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2016

	Enterprise Funds			
	GMSA	GEDA	GMAMA	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 8,303,953	$ 79,534	$ 473,331	$ 8,856,818
Payments to suppliers	(5,055,051)	(221,988)	(427,118)	(5,704,157)
Payments to or on behalf of employees	(1,798,176)	-	(63,616)	(1,861,792)
Receipts of customer deposits	176,972	-	-	176,972
Customer deposits refunded or applied	(128,799)	-	-	(128,799)
Net cash provided by (used in) operating activities	1,498,899	(142,454)	(17,403)	1,339,042
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from other funds	52,439	63,543	85,269	201,251
Transfers to other funds	-	-	(93,817)	(93,817)
Net cash provided by (used in) non-capital and related financing activities	52,439	63,543	(8,548)	107,434
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	-	2,610,000	-	2,610,000
Purchases of capital assets	(608,380)	(2,610,000)	(1,486,280)	(4,704,660)
Principal paid on capital debt	(1,917,872)	(420,000)	-	(2,337,872)
Interest and fiscal agent fees paid on capital debt	(336,875)	(163,140)	-	(500,015)
Receipt of tax revenue	754,909	48,543	-	803,452
Decrease in TIF receivable	-	30,000	-	30,000
Transfers from other funds	-	4,322,154	1,486,280	5,808,434
Transfers to other funds	-	(1,701,425)	-	(1,701,425)
Net cash used in capital and related financing activities	(2,108,218)	2,116,132	-	7,914
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	46,084	3,360	53	49,497
Net cash provided by (used in) investing activities	46,084	3,360	53	49,497
Net increase in cash and cash equivalents	(510,796)	2,040,581	(25,898)	1,503,887
Balances - beginning of the year	3,611,237	583,464	101,201	4,295,902
Balances - end of the year	$ 3,100,441	$ 2,624,045	$ 75,303	$ 5,799,789
Reconciliation to the Statement of Net Position:				
Cash and cash equivalents	$ 2,760,049	$ 88,231	$ 75,303	$ 2,923,583
Restricted cash and cash equivalents	340,392	2,535,814	-	2,876,206
Total cash and cash equivalents	$ 3,100,441	$ 2,624,045	$ 75,303	$ 5,799,789
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ (399,672)	$ (384,559)	$ (234,113)	$ (1,018,344)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	2,116,953	241,128	210,504	2,568,585
Change in assets, liabilities, and deferrals:				
Decrease (increase) in receivables, net	(106,861)	1,749	10,868	(94,244)
Decrease (increase) in inventory	(22,106)	-	(12,567)	(34,673)
Decrease (increase) in prepaid expense	(498)	-	1,143	645
Increase in deferred outflows	(155,279)	-	(5,221)	(160,500)
Increase (decrease) in accounts payable	(10,688)	(772)	1,595	(9,865)
Increase in customer deposits payable	48,173	-	-	48,173
Increase (decrease) in accrued compensated absences	11,622	-	(4,449)	7,173
Increase in net pension liability	111,386	-	6,207	117,593
Increase (decrease) in deferred inflows	(94,131)	-	8,630	(85,501)
Net cash provided by (used in) operating activities	$ 1,498,899	$ (142,454)	$ (17,403)	$ 1,339,042

See accompanying notes to the basic financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America (GAAP). Generally Accepted Accounting Principles (GAAP) includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The accounting and reporting framework and the more significant account principles and practices of Grove are discussed in subsequent sections of this Note.

1.A. FINANCIAL REPORTING ENTITY

The city's financial reporting entity is comprised of the following:

Primary Government:	City of Grove
Component Units:	Grove Municipal Services Authority (GMSA)
	Grove Economic Development Authority (GEDA)
	Grove Municipal Airport Managing Authority (GMAMA)
	Grove Hospital Authority *inactive* (GHA)

In determining the financial reporting entity, the city complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity,* and Statement No. 61, *The Financial Reporting Entity: Omnibus* and includes all component units of which the city is fiscally accountable.

Each of these component units is a Public Trust established pursuant to Title 60 of Oklahoma State Statutes. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets that are acquired or constructed with Authority debt or other Authority generated resources. In addition, the city has leased certain existing assets at the creation of the Authorities to the Trustees on a long-term basis. The city, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

BLENDED COMPONENT UNITS

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the city. These component units funds are blended into those of the city's by appropriate fund category to comprise the primary government presentation.

The component units that are blended into the primary governments' fund categories are presented below:

Grove Municipal Services Authority (GMSA) - Created to finance, develop and operate the natural gas, water, sewer, and solid waste activities, or other forms or types of municipal services within and without the corporate boundaries of the City. The City Council appoints the governing body (Trustees). Any issuances of debt would require a two-thirds approval of the City Council. The GMSA is reported as an enterprise fund within the primary government presentation.

Grove Economic Development Authority (GEDA) - Created September 3, 1968, and amended February 1, 1984, for promoting economic development within the City. The City Council appoints the governing body (Trustees). Any issuance of debt would require a two-thirds approval of the City Council. The GEDA is reported as an enterprise fund within the primary government presentation

Grove Municipal Airport Managing Authority (GMAMA) was created January 5, 1960 and amended December 22, 1975, to develop, construct, and operate a municipal airport in the City. The City Council appoints the governing body (Trustees). Any issuance of debt would require a two-thirds approval of the City Council. The GMAMA is reported as an

enterprise fund within the primary government presentation.

Grove Healthcare Authority (GHA) was created September 21, 1999 to develop and maintain healthcare facilities to service the needs of the people of the City. The board of trustees consists of five members, one of which is a member of the City Council, with the remaining four trustees being members at large. The City is the beneficiary of the trust, which is currently inactive.

1.B. BASIS OF PRESENTATION

Government-Wide Financial Statements:
The statement of net position and statement of activities display information about the city as a whole. They include all financial activities of the reporting entity. Eliminations have been made to minimize the double reporting of transactions involving internal activities. Individual funds are not displayed in these statements. Instead, the statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between the expenses and program revenues directly associated with the different governmental functions and business-type activities to arrive at the net revenue or expense of the function or activity prior to the use of taxes and other general revenues. Program revenues include (1) fees, fines, and services charges generated by the program or activity, (2) operating grants and contributions that are restricted to meeting the operational requirements of the program or activity, and (3) capital grants and contributions that are restricted to meeting the capital requirements of the program or activity and include assets donated by developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements:
Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Separate financial statements are presented for the two major fund categories: governmental and proprietary. The city presently has no fiduciary funds. An emphasis of the fund financial statements is placed on major governmental and enterprise funds. A fund is considered major if it is the primary operating fund of the city or meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
3. A fund not meeting the criteria of (a) and (b), however management has elected to report the fund as a major fund due to its significance to users of the financial statements.

FUND TYPES AND MAJOR FUNDS:
All remaining governmental and enterprise funds not meeting the above criteria are aggregated and reported as nonmajor funds. The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS

General Fund
The General Fund is the primary operating fund of the city and always classified as a major fund. It is used to account

for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specified revenue sources that are restricted or committed to expenditures for specified purposes other than capital projects or debt service. The reporting entity includes the following special revenue funds: Street and Alley Fund, Library Fund, Olympus Cemetery Fund, Special Fire Department Fund, Drug Forfeiture Fund, Special Police Fund, Technology Fund, Animal Control Fund, Veterans' Memorial Perpetual Care Fund, and Grove Delaware County Fire Tax Fund. All of these funds are reported as non-major.

Capital Project Funds

Capital Project Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlay, including the acquisition or construction of capital facilities or other capital assets. The reporting entity includes one capital project funds, the Capital Improvement Fund, which is reported as a major fund.

PROPRIETARY FUND TYPES

Proprietary funds include both enterprise funds and internal service funds. Enterprise funds are used to account for business-like activities provided to the general public. Internal service funds are used to account for business-like activities provided and charged to other funds or entities within the reporting entity. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Grove Municipal Services Authority enterprise fund. This fund accounts for activities of the public trust in providing natural gas, water, wastewater, and sanitation services to the public. The reporting entity also includes the Grove Economic Development Authority enterprise fund and the Grove Municipal Airport Managing Authority enterprise fund. All proprietary fund types are presented as major funds.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe ***how*** transactions are recorded within the financial statements. Basis of accounting refers to ***when*** transactions are recorded regardless of the measurement focus applied.

The government-wide financial statements and the proprietary fund statements report using the *economic resources* measurement focus and the accrual basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in Net Position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Governmental fund financial statements report using the *"current financial resources"* measurement focus and the modified accrual basis of accounting. Under the current financial resources focus, only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The city considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Sales and use taxes, franchise taxes, hotel/motel taxes, court fines and interest are considered susceptible to accrual. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are recorded when due.

1.D. ASSETS, LIABILITIES AND NET POSITION OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents includes all demand, savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Revenue bond account investments in money market accounts are also considered cash equivalents and carried at cost.

Investments

Investments consist of non-negotiable certificates of deposit whose original maturity term exceeds three months, investments in U.S. Government Securities, and securities that are guaranteed by the U.S. Government. All non-negotiable certificates of deposit are carried at cost. Investments in U.S. Government Securities and those backed by the U.S. Government are carried at fair value. The city places no limit on the amount it may invest in any one issuer. The city has not adopted a formal deposit and investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates other than restrictions set forth in state statutes.

Receivables

Material receivables in the governmental fund types and the governmental activities include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. These are reported as *Due From Other Governments*. Non-exchange transactions collectible but not available are deferred in the fund financial statements. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Business-type activities and the proprietary type funds consist of revenues earned at year-end and not yet received. Billed and unbilled utility accounts receivable comprise the majority of these receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

The city maintains a materials inventory related to the natural gas, water, and sewer facilities, natural gas in transit, and aviation fuel at the airport; inventory values are carried on a first-in first-out basis.

Capital Assets and Depreciation

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements

In the government-wide financial statements and the proprietary fund type, property, plant and equipment are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets that are recorded at their estimated fair value at the date of donation. The city capitalizes all capital purchases of land, buildings and improvements, infrastructure, and leasehold improvements regardless of cost, and furniture and equipment with an individual cost more than $500. Computer hardware and software is expensed when purchased.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The ranges of estimated useful lives by type of asset are as follows:

- Buildings and Improvements 20-50 years
- Furniture and Equipment 5-10 years
- Infrastructure 20-50 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Restricted Assets
Restricted assets reported in the fund financial statements include current assets of the governmental and enterprise funds that are legally restricted as to their use. The primary restricted assets are related to the revenue bond trustee accounts restricted for debt service.

Deferred Outflows of Resources
Deferred outflows are the consumption of net position by the City that are applicable to a future reporting period. At June 30, 2016, the City reported deferred outflows of resources related to its defined benefit pension plans.

Long-Term Debt
Accounting treatment of long-term debt varies depending upon the source of repayment and whether the debt is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources and business-type and similar discretely presented component unit resources are reported as liabilities as incurred. The long-term debt consists primarily of revenue notes payable. This long-term debt is reported net of unamortized premiums, and discounts, if any.

Long-term debt of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

Deferred Inflows of Resources
Deferred inflows are the acquisitions of net position by the City that are applicable to a future reporting period. At June 30, 2016, the City reported deferred inflows of resources related to its defined benefit pension plans.

Compensated Absences
Employees earn from 12 to 24 days of vacation per year, depending upon years of service. A maximum of two years of vacation leave may be accumulated. Compensatory time must be used prior to taking vacation leave.

Governmental funds do not report accrued compensated absences unless currently payable (due to termination); however, the accrual is reported for governmental activities at the governmentwide level. Both proprietary funds and business-type presentations include an accrual for compensated absences.

Pensions
The City participates in three employee pension systems as follows:

Name of Plan/System	Type of Defined Benefit Plan
Oklahoma Police Pension and Retirement Plan (OPPRS)	Cost Sharing Multiple Employer
Oklahoma Firefighters Pension and Retirement Plan (OFPRS)	Cost Sharing Multiple Employer
Oklahoma Public Employees Retirement System (OPERS)	Cost Sharing Multiple Employer

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's retirement plans and additions to/deductions from the City's fiduciary net positions have been determined on the same basis as they are reported by each respective plan or system. For this purpose, benefit payments are recognized when due and payable in accordance with the respective plan benefit terms. Investments are reported at fair value based on published market prices. Detailed information about the OPPRS, OFPRS, and OPERS plans' fiduciary net position is available in a

separately issued financial report for each plan. Those reports may be obtained as follows: Oklahoma Police Pension and Retirement System – www.ok.gov/OPPRS and the Oklahoma Firefighters Pension and Retirement System – www.ok.gov/FPRS and the Oklahoma Public Employees Retirement System at www.opers.ok.gov .

Equity Classifications

Government-Wide Financial Statements:
Equity is classified as Net Position and displayed in three components:

1. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position - Consists of Net Position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - All other Net Position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the City's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Fund Financial Statements:
Governmental fund equity is classified as fund balance. Since the City implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.

Unrestricted:

c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city's highest level of decision-making authority. The City's highest level of decision-making authority is made by ordinance.

d. Assigned – includes amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.

e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City's policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and un fund balance are available. The City's policy for the use of fund balance amounts require that restricted amounts would be reduced first, followed by committed amounts and then assigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

1.E. REVENUES, EXPENDITURES AND EXPENSES

Sales Tax
The City levies a three and four/tenths-cent sales tax on taxable sales within the city. The sales tax is collected by the

Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. The sales tax is recorded as revenue in the funds as follows:

- 2 of the 3.4% levied (58.8%) is for the general use of the City and is deposited in the General Fund.
- The remainder is deposited to the Capital Improvement Fund to be used only for capital purchases

Property Tax

Under State statutes, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and any court-assessed judgments. The City has not levied any property tax; however, the City has designated a tax increment district for which incremental additional property tax will be paid to the City for a specified term. The property tax is recognized in the financial presentation of GEDA.

Property taxes are collected by the County Treasurer's Office and remitted to the City in the month following collection. Property taxes are levied normally in October and are due in equal installments on December 31 and March 31. Property taxes unpaid for the fiscal year are attached by an enforceable lien on property in the following October.

Pledged Revenue

The City has pledged its water and sewer system revenue as well as levied sales tax to secure revenue notes issued by the Grove Municipal Services Authority.

Expenditures and Expenses

In the government-wide financial statements, expenses, including depreciation of capital assets, are reported by function or activity. In the governmental fund financial statements, expenditures are reported by function, capital outlay and debt service. In the proprietary fund financial statements, expenses are reported by object or activity.

1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide statement of net position and statement of activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements:

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans - amounts provided with a requirement for repayment are reported as interfund receivables and payables.

2. Interfund services - sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.

3. Interfund reimbursements - repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.

4. Interfund transfers - flow of assets from one fund to another where repayment is not expected are reported as transfers in and out. Transfers both in and out of a fund in the same period between the same funds and for the same purpose are eliminated.

Government-Wide Financial Statements:
Interfund activity related to services provided and used is not eliminated in the process of consolidating the government-wide financial statements. All other interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements, as follows:

1. Internal balances - amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.

2. Internal activities - amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statement of activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers - Internal Activities. The effect of interfund services between funds is not eliminated in the statement of activities.

1.G. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

1.H. NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL YEAR 2016

The City adopted several new accounting pronouncements during the year ended June 30, 2016 as follows:

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* - This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. There were no significant changes to the City's financial presentation as a result of implementing this statement.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* – The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

1.I PRIOR PERIOD ADJUSTMENT

The following beginning net assets have been restated as follows:

	GMSA	GEDA
Beginning net assets as previously reported at June 30, 2015:	**$ 22,107,176**	**$ 1,443,488**
Prior period adjustments:		
Corrections:		
TIF receivable misstatement	-	49,986
Removal of fixed asset record for building sold in a prior period	-	(280,000)
Change in accounting principle:		
Accrual of utility services provided but not yet billed	506,830	-
Net assets as restated July 1, 2015	**$ 22,614,006**	**$ 1,213,474**

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component units are subject to various federal, state and local laws and contractual regulations.

2.A. DEFICIT FUND BALANCES OR NET POSITION

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund of the City (excluding public trusts).

2.B. DEPOSITS AND INVESTMENTS REQUIREMENTS

In accordance with State Statutes, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds, or certain letters of credit. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the city must have a written collateral agreement approved by the board of directors or loan committee.

Investments of a City (excluding Public Trusts) are limited by State Statute to the following:

a. Direct obligations of the U. S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State of Oklahoma is pledged.

b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.

d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.

f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c. and d.

Public trusts created under O.S. Title 60, are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2016, the city and its public trusts, complied with the above investment restrictions.

2.C. DEBT RESTRICTIONS AND COVENANTS

Revenue Debt
The revenue notes issued by the GMSA contain a number of financial restrictions or covenants. These include covenants requiring flow of funds through special accounts, required reserve account balances and revenue debt service coverage requirements. The GMSA complied with the requirements of the debt covenants in all material respects for the fiscal year ended June 30, 2016.

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

3.A. DEPOSITS AND INVESTMENTS

The City's policies regarding deposits of cash and investments are discussed in Note 2.B.

Deposits
Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2016, the City was not exposed to custodial credit risk as defined above.

As of June 30, 2016, the City's reporting entity had the following deposits:

Type	Fair Value	Credit Rating
Demand deposits and cash on hand	$ 5,850,534	n/a
Money market fund - federal obligations	2,876,206	n/a
	$ 8,726,740	
Reconciliation to Statement of net position:		
Cash and cash equivalents	$ 5,850,534	
Restricted - cash and cash equivalents	2,876,206	
	$ 8,726,740	

Investments

The City's investment policy requires diversification in order to eliminate the risk of loss resulting from the over-concentration of assets with a specific maturity date, issuer, or class of securities.

3.B. ACCOUNTS RECEIVABLE

Accounts receivable of the governmental activities consists of service fee receivables, business-type activities consists of customer utilities, hangar, and airport land lease receivables.

3.C. RESTRICTED ASSETS

The amounts reported as restricted assets in the fund financial statements are comprised of cash and investments held by the trustee banks on behalf of the various public trusts (authorities) related to their required revenue note accounts as described in Note 2.B., and deposits held for refund.

3.D. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance 7/1/2015*	Additions	Deletions	Balance June 30, 2016
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 411,076	$ -	$ -	$ 411,076
Construction-in-progress	576,546	376,712	(232,359)	$ 720,899
Total Capital assets not being depreciated	987,622	376,712	(232,359)	1,131,975
Depreciable assets				
Buildings and improvements	11,461,321	337,110	-	11,798,431
Equipment and furniture	2,941,022	602,798	(227,160)	3,316,660
Vehicles	2,273,387	23,999	(91,411)	2,205,975
Infrastructure	2,542,722	296,657	-	2,839,379
Total depreciable assets	19,218,452	1,260,564	(318,571)	20,160,445
Less accumulated depreciation	9,618,926	1,138,736	(315,476)	10,442,186
Net depreciable assets	9,599,526	121,828	(3,095)	9,718,259
Governmental activities capital assets, net	$ 10,587,148	$ 498,540	$ (235,454)	$ 10,850,234
Business -type Activities:				
Capital assets not being depreciated:				
Land	$ 1,902,305	$ -	$ -	$ 1,902,305
Construction-in-progress	2,895,289	529,039	(2,437,514)	986,814
Total Capital assets not being depreciated	4,797,594	529,039	(2,437,514)	2,889,119
Depreciable Assets:				
Buildings and improvements	16,960,819	6,520,769	-	23,481,588
Equipment and furniture	5,312,211	30,631	(6,696)	5,336,146
Vehicles	474,735	67,221	-	541,956
Infrastructure	38,203,792	215,236	-	38,419,028
Total depreciable assets	60,951,557	6,833,857	(6,696)	67,778,718
Less accumulated depreciation	22,544,917	2,568,585	-	25,113,502
Net depreciable assets	38,406,640	4,265,272	(6,696)	42,665,216
Business-type activities capital assets, net	$ 43,204,234	$ 4,794,311	$ (2,444,210)	$ 45,554,335

*Restated

Depreciation expense was charged to functions in the statement of activities as follows:

Primary Government:	
Governmental Activities:	
General government	$ 15,524
Public safety and judiciary	202,195
Culture, parks, and recreation	277,317
Public works	643,700
Total depreciation expense - governmental activities	$1,138,736
Business-Type Activities:	
Utilities	$2,116,953
Economic development	241,128
Airport	210,504
Total depreciation expense - business-type activities	$2,568,585

3.E. TIF (TAX ANTICIPATION) RECEIVABLE

The City adopted and approved the Harbor Point Economic Development Plan dated August 15, 2011 pursuant to the Oklahoma Local Development Act, Title 62, Oklahoma Statutes, Section 850, as amended and created Increment District No. 1, City of Grove. The plan assists a developer in the redevelopment of a former hospital site by providing funding for the construction of public infrastructure and other site improvements through the issuance of debt to be repaid by incremental additional property taxes generated by development within the District. In the event the ad valorem taxes are insufficient to make the scheduled payment, the developer has executed an agreement to reimburse the shortfall.

On September 1, 2011, the Grove Economic Development Authority issued the Grove Economic Development Authority Tax Increment Revenue Note, Taxable Series 2011 in the amount of $2,415,000, bearing a variable interest rate of 2.29%, not to exceed 14% and payable in 50 semi-annual installments.

GEDA has recorded a TIF (tax anticipation) Receivable equal to the outstanding balance on the related note. For the year ended June 30, 2016, Debt service was $90,972, ad valorem taxes received were $48,543, and developer payments were $18,671, with the shortfall being paid from a dedicated trust account.

Changes in the TIF (Tax Anticipation) Receivable

	Balance June 30, 2015	Advanced	Received	Balance June 30, 2016	Due within One Year
TIF receivable (Harbor Point)	$ 2,405,000	$ -	$ 30,000	$ 2,375,000	$ 35,000

3.F. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities, and business-type activities.

Governmental Activities

As of June 30, 2016, the long-term debt payable from governmental activities resources consisted of the following:

Lease/Purchase obligations:	
Equipment lease payable to the First National Bank and Trust Company, original issue amount of $273,870, secured by a fire pumper truck, nominal annual rate of 4.80%, with final maturity of October 2020. The lease is being paid by dedicated sales tax funds held by Delaware County.	$ 125,130
Equipment lease payable to the Welch State Bank, original issue amount of $110,200, secured by a fire ladder truck, nominal annual rate of 3.76%, with final maturity of March 2018. The lease is being paid by dedicated sales tax funds held by Delaware County.	34,560
Equipment lease payable to the Grand Savings Bank, original issue amount of $79,435, secured by a dump truck, nominal annual rate of 1.50%, with final maturity of April 2018.	53,371
Total long-term debt payable from governmental resources	$ 213,061

Business-Type Activities:

As of June 30, 2016, the long-term debt payable from business-type activities resources consisted of the following:

Notes payable:	
$7,500,000 GMSA, Series 2003 Small Community Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, dated November 6, 2003 for improvements to the wastewater treatment plant, payable semi-annually, maturing September, 2024, interest rate of 2.66%, and secured by revenues generated by the utility system plus a pledge of 2.4% sales tax from the City.	$ 3,623,718
$4,080,000 GMSA, Sales Tax Revenue Note Series 2005 payable to the Bank of America, dated September, 2005 for utility line relocation and improvements to the wastewater treatment plant, payable semi-annually, maturing September, 2001, interest rate of 3.99%, and secured by a pledge of sales tax from the City.	1,535,000
$4,170,000 GMSA, Sales Tax Revenue Refunding Note Series 2006 payable to the Bank of Oklahoma, dated February, 2006, payable semi-annually, maturing March, 2019, interest rate of 4.10%, and secured by a pledge of sales tax from the City.	705,000
$1,900,000 GMSA, Series 2009 Small Community Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, Dated August 21,2009 for improvements to the wastewater treatment plant, payable semi-annually, maturing September 15, 2021, interest rate of 2.37%, and secured by revenues generated by the utility system plus a pledge of 2.4% sales tax from the City.	679,222
$945,000 GMSA, Series 2011 Promissory Note issued to the Bank of Grove, dated March, 2011 for construction of a public works facility, payable semi-annually, maturing April, 2021, bearing an interest rate of 3.47%.	520,000

$2,050,000 GMSA, Sales Tax Revenue Note Series 2011 payable to the Bank of Grove, dated September, 2005 to finance an automated meter reading system for water and gas meters, payable semi-annually, maturing September, 2026, interest rate of 3.18%, and secured by a pledge of sales tax from the City.	1,580,000
$8,765,000 GMSA, Series 2013 Drinking Water SRF Promissory Note payable to the Oklahoma Water Resources Board, dated June, 2013 for improvements to the water treatment plant, payable semi-annually, maturing March, 2034, interest rate of 2.75%, and secured by revenues generated by the utility system plus a pledge of sales tax from the City.	7,727,594
$1,435,000 GEDA, Promissory Note Series 2010 payable to the Bank of Oklahoma, dated February, 2010 to finance the construction of a municipal swimming pool, payable semi-annually, maturing February, 2025, interest rate of 3.47%	950,000
$2,415,000 GEDA, Tax Increment Revenue Note, Taxable Series 2011, payable to the Bank of Oklahoma, dated February, 2010 to finance the public infrastructure and site development, payable semi-annually, maturing June, 2036, variable interest rate initially 2.29%, reset June and December not to exceed 14%	2,375,000
$1,000,000 GEDA, Promissory Note Series 2012 payable to the Bank of Grove, dated July, 2012 to finance the construction of a recreational parking lot, payable semi-annually, maturing July, 2016, interest rate of 2.33%	155,000
$2,610,000 GEDA, Promissory Note Series 2015 payable to the Bank of Grove, dated July, 2012 to finance improvements to a recreational boating and fishing facility, payable semi-annually, maturing September, 2015, variable interest rate set a 75% of the sixth month LIBOR, initially 2.9031%	2,610,000
Total notes payable, payable from business-type activities	$ 22,460,534

Lease/Purchase obligations:

Equipment lease payable to the Kansas State Bank of Manhattan, original issue amount of $126,940, secured by an excavator, nominal annual rate of 2.89%, with final maturity of July 2016.	$ 26,101

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Amounts Due in One Year
Governmental Activities:					
Lease/Purchase obligations	$ 255,354		$ 42,293	$ 213,061	$ 72,547
Total Governmental Activities	$ 255,354	$ -	$ 42,293	$ 213,061	$ 72,547
Business Type Activities:					
GMSA:					
Notes payable	$ 18,263,039	$ -	$ 1,892,505	$ 16,370,534	$ 1,701,523
Lease/Purchase obligations	51,468		25,367	26,101	26,101
GEDA:					
Notes payable	3,900,000	2,610,000	420,000	6,090,000	410,000
Total Business Type Activities	$ 22,214,507	$ 2,610,000	$ 2,337,872	$ 22,486,635	$ 2,137,624

Payment requirements to maturity:

	GMSA				GEDA		City of Grove	
Year Ending	Notes Payable		Lease Payable		Notes Payable		Lease Payable	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 1,701,523	$ 471,666	$ 26,101	$ 754	$ 410,000	$ 129,653	$ 72,547	$ 8,000
2018	1,754,823	416,807	-	-	380,000	159,007	75,010	5,537
2019	1,798,476	360,280	-	-	395,000	147,118	31,984	3,144
2020	1,592,309	304,849	-	-	410,000	134,540	33,520	1,609
2021	1,500,675	255,527	-	-	435,000	121,524	-	-
2022-2026	4,587,634	800,944	-	-	2,335,000	392,207	-	-
2027-2031	2,281,250	325,798	-	-	685,000	164,937	-	-
2032-2036	1,153,844	47,785	-	-	1,040,000	69,616	-	-
Total	$ 16,370,534	$ 2,983,656	$ 26,101	$ 754	$ 6,090,000	$ 1,318,602	$ 213,061	$ 18,291

3.G. INTERFUND TRANSACTION AND BALANCES

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

Transfer from	Transfer to	Amount	Nature of Interfund Transfer
* General Fund	* GEDA	$ 50,000	Economic development
* General Fund	* GEDA	13,543	Pool operations
* General Fund	* GMAMA	50,000	Assist airport in paying city loan
* General Fund	* GMAMA	8,000	Airport operations
* Capital Improvement Fund	* GMSA	54,803	Debt service - 50% of 2011 note
* Capital Improvement Fund	* GEDA	2,610,000	Wolf Creek Project capital asset
* Capital Improvement Fund	* GEDA	1,214,153	Wolf Creek Project grant revenue
* Capital Improvement Fund	* GEDA	312,359	Debt service - 2012 note
* Capital Improvement Fund	* GEDA	125,868	Debt service - 2010 note
* Capital Improvement Fund	* GEDA	59,775	Debt service - 2015 note
* Capital Improvement Fund	* GMAMA	1,531,785	Transfer taxiway asset to airport
* Capital Improvement Fund	* GMAMA	66,929	Balance of terminal project
* GEDA	* Capital Improvement Fund	1,701,426	2015 loan proceeds to reimburse
* GMAMA	Governmental activities	40,293	Fixed asset transfer (non-cash)
		$ 7,838,934	

* Represents major fund

Reconciliation to Fund Financial Statements:	**Transfers in**	**Transfers out**	**Total**
Governmental Funds	$ 1,786,592	$ 6,097,215	$ (4,310,623)
Proprietary Funds	6,012,049	1,741,719	4,270,330
Total funds	7,798,641	7,838,934	(40,293)
Fixed asset transfer from business-type to governmental activities, net	40,293	-	40,293
Total primary government	$ 7,838,934	$ 7,838,934	$ -

Interfund receivable/payable balances at June 30, 2016 were as follows:

Receivable Fund	Payable Fund	Amount	Nature of Interfund Balance
* Capital Improvement	* General Fund	349,939	Sales tax accrual
* Capital Improvement	* GMAMA	40,128	Interfund financing - fuel truck
* Capital Improvement	* GMAMA	300,705	Interfund financing - T hangar
* Capital Improvement	* GMAMA	155,162	Interfund financing - terminal
* GMSA	* General Fund	139,912	Sales tax accrual
Total		$ 985,846	

Reconciliation to Fund Financial Statements:	Due From Other Funds	Due To Other Funds	Net Internal Balances
Governmental Funds	$ 845,934	$ 489,851	$ 356,083
Proprietary Funds	139,912	495,995	(356,083)
Total	$ 985,846	$ 985,846	$ -

* Fund is a major fund

3.H. FUND BALANCES AND NET POSITION

Government Wide Financial Statements:

Net Position Restrictions at June 30, 2016 were as follows:

Fund	Restricted By	Amount
Olympus Cemetery Fund	State statute	13,563
Delaware County Fire Tax Fund	County levy - external	73,964
GEDA	Debt covenants - external	2,535,814
		$ 2,623,341

Fund Level Financial Statements:

	General Fund	Capital Improvement Fund	Other Governmental Fund	Total
Fund Balance:				
Restricted For:				
Cemetery	-	-	13,563	13,563
Fire services (county controlled)	-	-	73,964	73,964
Cemetery	-	-	87,527	87,527
Committed For:				
Capital improvements - city ordinance	-	2,807,777	-	2,807,777
Animal control - budgetary	-		6,400	6,400
Sub-total restricted	-	2,807,777	6,400	2,814,177
Assigned for:				
Budgetary - council resolution	800,000	-	-	800,000
Police and judiciary -council resolution			11,399	11,399
Fire services -council resolution			6,972	6,972
Cemetery -council resolution			100	100
Library operations-council resolution			5,541	5,541
Street and alleys -council resolution	-	-	13,077	13,077
Sub-total assigned	800,000	-	37,089	837,089
Unassigned:	1,466,151	-	-	1,466,151
TOTAL FUND BALANCE	$ 2,266,151	$ 2,807,777	$ 131,016	$ 5,204,944

NOTE 4. OTHER NOTES

4.A. DEFINED BENEFIT PENSION PLANS

The City participates in three employee pension systems as follows:

Name of Plan/System	Type of Defined Benefit Plan
Oklahoma Police Pension and Retirement Plan (OPPRS)	Cost Sharing Multiple Employer
Oklahoma Firefighters Pension and Retirement Plan (OFPRS)	Cost Sharing Multiple Employer
Oklahoma Public Employees Retirement System (OPERS)	Cost Sharing Multiple Employer

Plan Descriptions

The City of Grove, as employer, contributes to two cost-sharing multiple-employer defined benefit pension plans on behalf of the policemen and firefighters and to the OPERS for all other eligible employees. The plans provide retirement and disability benefits, and death benefits to plan members and beneficiaries. The cost to administer the OPPRS and OFPRS and OPERS plans is financed through the contributions, insurance premium taxes, state appropriations, and investment earnings. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained as follows: Oklahoma Police Pension and Retirement System – www.ok.gov/OPPRS and the Oklahoma Firefighters Pension and Retirement System – www.ok.gov/FPRS and the Oklahoma Public Employees Retirement System at www.okmrf.org .

The Oklahoma Police Pension and Retirement System is administrator of the Oklahoma Police Pension and Retirement Plan (OPPRS), a multi-employer, cost sharing defined benefit plan established by Oklahoma Statutes. The System is a component unit of the State of Oklahoma and is part of the State's reporting entity. Responsibility for administration of the OPPRS is assigned to a Board of Trustees comprised of thirteen members including six active members representing specific geographic areas of the state and one retired member; the remaining six members are either governmental office holders or appointees with demonstrated experience in finance or licensed to practice law or accounting in the state.

The Oklahoma Firefighters Pension Retirement System is administrator of the Oklahoma Firefighters Pension and Retirement Plan (OFPRS). The System is a part of the State financial reporting entity, which is combined with other similar funds to comprise the fiduciary pension trust funds of the State. Responsibility for administration of the OFPRS is assigned to the Oklahoma Firefighters Pension and Retirement System Board of Trustees comprised of thirteen members including the five members of the Board of Trustees of the Oklahoma State Firefighters Association, one member of the Professional Firefighters Associations, one member of the Oklahoma State Retired Firefighters Association, one member each appointed by the Oklahoma House and Senate, two members appointed by the Oklahoma Municipal League, and the State Insurance Commissioner or designee.

The Oklahoma Public Employees Retirement System is administrator of the OPERS plan. The System is part of the Oklahoma State financial reporting entity, which is combined with other funds to comprise the fiduciary pension trust of funds of the State. Responsibility for administration of the OPERS is assigned to the Oklahoma Public Employees Retirement System Board of Trustees, comprised of thirteen members.

Plan Benefits

All three plans provide defined retirement benefits based on the members final average compensation, age, and term of services. In addition, the retirement programs provide for benefits upon disability and to survivors upon the death of eligible members. Benefits are established and amended by state statute. Retirement provisions for each plan are as follows:

OPPRS

The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.

Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit.

OFPRS

Benefits for members hired prior to November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 20 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is $150.60 per month. Benefits vest with 10 years or more of service

Benefits for members hired after November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have complete 22 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is $165.66 per month. Benefits vest with 11 years or more of service

All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per year of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as

opposed to 30 months. For volunteer firefighters, the not-in-line-of-duty disability is also limited to only those with less than 20 years of service and is $7.53 per year of service. For volunteer firefighters, the in-line-of-duty pension is $150.60 with less than 20 years of service, or $7.53 per year of service, with a maximum of 30 years.

A $5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The $5,000 death benefit does not apply to members electing the vested benefit.

OPERS

Full time employees at the City other than police officers and firefighters participate in the OPERS plan.

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member on or after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90). Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Member and Employer Contributions

The contribution requirements of the OPPRS and OFPRS plans are at an established rate determined by Oklahoma statute and are not based on actuarial calculations. The City Council has the authority to set and amend contribution rates by ordinance for the OPERS benefit plan in accordance with O.S. Title 11, Section 48-102. Specific requirements for each plan are as follows:

OPPRS

All persons employed by the City as police officers and expected to work more than 25 hours per week are required to participate in the Plan. Required employer contribution levels are 13% of base salary and each participant contributes 8% of his/her actual paid base salary. The Oklahoma Legislature has authority to establish and amend contribution amounts. Additional funds are provided to the Plan by the State of Oklahoma, a non-employer contributing entity, through a 14% allocation of the tax on premiums collected by insurance companies operating in Oklahoma and by the net investment income generated on assets held by the Plan. The Plan is responsible for paying administrative costs. Administrative costs of the Plan are paid by using the earnings from the invested assets of the Plan.

OPFRS

Required employer contribution levels are 14% of applicable earnings and firefighters contribute 9%, however, the City contributes the firefighters 'contribution as well, bringing the total City employer contribution to 23% of covered payroll. In addition, member cities contribute $60 for each volunteer firefighter. The Oklahoma Legislature has the authority to establish and amend contribution amounts. The State of Oklahoma, a non-employer contributing entity, presently allocates 36% of the insurance premium tax collected from various types of insurance policies to the Plan. The State of Oklahoma may also appropriate additional funds annually as needed to pay current costs and to amortize the unfunded actuarial present value of accumulated plan benefits. No such appropriations were received during the

year ended June 30, 2015 (the measurement date).

OPERS

The contribution rates for each member category of the Plan are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. For the year ended June 30, 2016, employees contributed 3.5% of eligible salary and the City contributed 16.5%.

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

At June 30, 2016, the City of Grove reported a liability for its proportionate share of the net pension liability. The net pension liability for all three plans was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportionate share of the net pension liability was based on the City's share of contributions in the respective pension plan relative to the total contributions of all participating plan employers, since the plans are cost sharing-multiple employer type plans. At June 30, 2015, the City's proportionate share was 0.3198 percent of the total OPPRS plan, 0.873 percent of the total OFPRS plan, and 0.125 percent of the OPERS plan.

For the year ended June 30, 2016, the City recognized pension expense of $48,818, $78,687, and $128,168 for the OPPRS, OFPRS, and OPERS plans, respectively.

At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to the three defined benefit pension plans from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPPRS		
Difference between expected and actual plan experience	$ -	$ 72,098
Net difference between projected and actual earnings on pension plan investments	233,645	283,816
Contributions subsequent to the measurement date	122,047	-
Difference due to change in proportion	775	-
OFPRS		
Difference between expected and actual plan experience	18,302	-
Net difference between projected and actual earnings on pension plan investments	32,839	101,891
Contributions subsequent to the measurement date	32,885	-
Difference due to change in proportion	28,202	-
OPERS		
Difference between expected and actual plan experience	-	50,008
Net difference between projected and actual earnings on pension plan investments	371,309	575,323
Differences due to changes in assumptions	6,997	-
Contributions subsequent to the measurement date	363,722	-
Total for all plans	$ 1,210,723	$ 1,083,136
Reconciliatio to the Statement of Net Position:		
Governmental activities	$ 991,668	$ 765,525
Business-type activities	219,055	317,611
Total	$ 1,210,723	$ 1,083,136

Amounts reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017 as follows: $448,785 for governmental activities, and $69,869 for business-type activities.
The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2014 the beginning of the measurement period ended June 30, 2015 is 5.77 years for the OPPRS, 6.31 years for the OFPRS, and 3.11 for the OPERS.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the the aggregated three pension plans will be recognized in pension expense (revenue) as follows:

Fiscal Year:	
2017	$ (199,989)
2018	$ (182,576)
2019	$ (176,951)
2020	$ 135,551
2021	$ 32,722
Thereafter	$ 176

Actuarial Assumptions

For all plans, valuations are based on actuarial assumptions, the benefit provisions, and census of system members. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. Any unfunded actuarial accrued liability is amortized based on a level percentage of payroll.

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPPRS	**OFPRS**	**OMRF**
Inflation	3.00%	3.00%	3.00%
Salary increases	1.50% - 14.00%	0.50% - 6.00%	4.5% - 8.4%
Salary inflation	3.00%	3.00%	3.00%
Investment rate of return	7.50%, net of investment expenses	7.50%, net of investment expenses	7.50%, net of investment expenses
Cost-of-living adjustments	Officers eligible to receive increased benefits based on a repealed statute receive an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase of base salary of 3%	Half of the dollar amount of a 3% assumed increase in base pay for firefighters with 20 years of service as of May 26, 1983. No COLA is assumed for members not eligible for this increase	No current provision

Mortality rates for the all plans were based on the RP–2000 Blue Collar Healthy Combined with generational mortality improvement using Scale AA.

The most recent experience study for the Plans considered actual System experience for the period July, 2007 through June 30, 2012. Total Pension Liability for the Plans as of June 30, 2015, is based on the results of an actuarial valuation date of July 1, 2015.

The long-term expected rate of return on pension plan investments for all plans was determined using the building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major class included in each pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Discount Rate

The discount rate used to measure the total pension liability for the Plans was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at the contractually required rates, determined by State statutes. Projected cash flows also assume that the State of Oklahoma will continue contributing 14% and 36% of the insurance premium for the OPPRS and OFPRS, respectively, as established by statute. For all plans, the pension plans' fiduciary net positions were expected to be available to make all projected future benefit payments of current plan members for all future years and hence, the blended GASB discount rate is equal to the long-term rate of return of 7.50%.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate.

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

City of Grove's Net Pension Liability (Asset)

	1% Decrease	Current Discount Rate	1% Increase
Discount rate used>	**6.50%**	**7.50%**	**8.50%**
Cost sharing plans - proportionate share:			
Oklahoma Police Pension and Retirement System	$ 783,448	$ 13,039	$ (636,470)
Oklahoma Firefighters Pension and Retirement System	1,202,761	926,341	694,512
Oklahoma Public Employees Retirement System	583,986	449,774	337,212
Total - All City of Grove's Plans	**$ 2,570,195**	**$ 1,389,154**	**$ 395,254**
Reconciliation to Statement of Net Position:			
Governmental activities		$ 1,150,938	
Business-type activities		238,216	
Total net pension liability (asset)		$ 1,389,154	

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in separately issued financial reports for each pension system.

Both the OPPRS and the OFPRS issue a publicly available financial report that includes financial statements and the required supplementary information for each pension system. Those reports may be obtained as follows: Oklahoma Police Pension and Retirement System (OPPRS) – www.ok.gov/OPPRS and the Oklahoma Firefighters Pension and Retirement System (OFPRS) – www.ok.gov/FPRS and the Oklahoma Public Employees Retirement System at www.opers.ok.gov .

Payables to the pension plans

At June 30, 2016 the City reported no payables to the defined benefit pension plans for legally required employer contributions.

4.B. RISK MANAGEMENT

The city is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The city manages these various risks of loss with purchased commercial insurance for all major programs. There have been no significant reductions insurance coverage, and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

4.D. COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

Contingencies:

Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement, which may arise as a result of these audits, cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The City is a party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City Sinking Fund for the payment of any court assessed judgment rendered against the city. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City. This statutory taxing ability is not available to the city's public trusts (Authorities).

Subsequent Events

Management has evaluated subsequent events through the date of this report and has determined that no additional information needs to be added to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedules –
  - General Fund
  - Capital Improvement Fund

- Notes to RSI – Budgetary Comparison Schedules
- Schedule of City of Grove's Share of Net Pension Liability
- Schedule of Employer Contributions

CITY OF GROVE
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance to final Favorable (unfav)
Beginning budgetary fund balance	**$ 300,000**	**$ 300,000**	**$ 1,610,525**	**$ 1,310,525**
Resources (inflows)				
Taxes				
Sales and Use taxes	3,825,000	3,825,000	4,150,728	325,728
Franchise tax	193,500	193,500	383,814	190,314
Total taxes	4,018,500	4,018,500	4,534,542	516,042
Intergovernmental				
Alcoholic beverage tax	70,000	70,000	64,721	(5,279)
Tobacco tax	73,000	73,000	76,154	3,154
Grants and contributions	88,500	93,500	43,626	(49,874)
Total intergovernmental	231,500	236,500	184,501	(51,999)
Licenses and permits				
Occupational licenses	18,000	18,000	32,293	14,293
Construction Permits	35,000	35,000	110,688	75,688
Animal license	2,000	2,000	3,567	1,567
Total licenses and permits	55,000	55,000	146,548	91,548
Charges for services				
Dispatching fees	95,900	95,900	81,322	(14,578)
Plots and interment	10,000	10,000	16,250	6,250
Miscellaneous fees	125,700	125,700	47,137	(78,563)
Total charges for services	231,600	231,600	144,709	(86,891)
Fines and forfeitures	139,500	139,500	155,552	16,052
Other income				
Investment income	25,000	25,000	52,176	27,176
Miscellaneous income	142,200	142,200	174,996	32,796
Total other income	167,200	167,200	227,172	59,972
Other financing sources				
Transfers in	3,600,000	3,815,000	3,814,432	(568)
	3,600,000	3,815,000	3,814,432	(568)
Amounts available for appropriation	$ 8,743,300	$ 8,963,300	$ 10,817,981	$ 1,854,681

(CONTINUED)

CITY OF GROVE
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(CONTINUED)				
Charges to appropriations (outflows)				
General government:				
Governing Board	18,700	18,700	160,866	(142,166)
Administration	595,200	590,500	563,074	27,426
Finance	57,700	62,400	59,966	2,434
Legal and Court	59,100	59,100	56,245	2,855
City Hall	26,100	26,100	20,372	5,728
Airport	58,000	58,000	-	58,000
Total general government	814,800	814,800	860,523	(45,723)
Public Safety				
Police, Dispatch and Code Enforcement	2,062,650	2,062,650	1,990,617	72,033
Fire	471,900	469,900	429,702	40,198
Total public safety	2,534,550	2,532,550	2,420,319	112,231
Public works				
Streets	657,350	662,350	598,810	63,540
Vehicle Maintenance	111,300	111,300	102,526	8,774
Building and Grounds	406,150	406,150	359,244	46,906
Total public works	1,174,800	1,179,800	1,060,580	119,220
Cultural, parks, recreation, and promotion				
Library	16,300	16,300	13,641	2,659
Cemetery	3,300	3,300	1,090	2,210
Recreation	223,200	223,200	96,839	126,361
Economic Development	207,950	209,950	197,409	12,541
Senior Citizens	14,700	14,700	15,454	(754)
Total cultural, parks, recreation, and promotion	465,450	467,450	324,433	143,017
Capital outlay				
Other financing uses				
Transfers to other funds	3,753,700	3,968,700	3,885,975	82,725
Total other financing uses	3,753,700	3,968,700	3,885,975	82,725
Total charges to appropriations	8,743,300	8,963,300	8,551,830	411,470
Ending budgetary fund balance	**$ -**	**$ -**	**$ 2,266,151**	**$ 2,266,151**

CITY OF GROVE
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)
CAPITAL IMPROVEMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance to final Favorable (unfav)
Beginning budgetary fund balance	**$ 2,007,900**	**$ 2,007,900**	**$ 2,954,568**	**$ 946,668**
Resources (inflows)				
Taxes				
Sales tax	1,775,000	1,775,000	1,888,129	113,129
Intergovernmental				
Grants and Contributions	3,900,100	5,073,000	3,624,797	(1,448,203)
Miscellaneous	-	-	51,350	51,350
Total intergovernmental	3,900,100	5,073,000	3,676,147	(1,396,853)
Other income				
Transfer in	1,883,800	1,883,800	1,736,592	(147,208)
Total other income	1,883,800	1,883,800	1,736,592	(147,208)
Loan Proceeds	-	2,531,300	-	(2,531,300)
Amounts available for appropriation	**9,566,800**	**13,271,000**	**10,255,436**	**(3,015,564)**
Charges to appropriations (outflows)				
Administration	2,804,200	5,009,200	353	5,008,847
Public Safety	463,300	466,200	63,075	403,125
Public Works	5,372,400	5,863,700	106,839	5,756,861
Airport	850,000	1,855,000	-	1,855,000
Community Development	76,900	76,900	22,262	54,638
Capital outlay	-	-	1,364,624	(1,364,624)
Transfers out	-	-	5,890,506	(5,890,506)
Total charges to appropriations	**9,566,800**	**13,271,000**	**7,447,659**	**5,823,341**
Ending budgetary fund balance	**$ -**	**$ -**	**$ 2,807,777**	**$ 2,807,777**

CITY OF GROVE, OKLAHOMA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
ON BUDGETARY ACCOUNTING AND CONTROL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The city prepares its annual operating budget under the provisions of the Municipal Budget Act of 1979 (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

a. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.

b. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.

c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the City Council.

d. By July 1, the adopted budget is filed with the Office of State Auditor and Inspector.

All funds of the city with revenues and expenditures are required to have annual budgets under this section of the state law, except funds of public trusts or authorities. The legal level of control at which expenditures may not legally exceed appropriations is the department within a fund. The Budget Act recognizes the following object categories of control by department within a fund: Personal Services, Materials and Supplies, Other Services and Charges, Capital Outlay, Debt Service, and Interfund Transfers.

Transfers of appropriations between departments and supplemental appropriations require City Council approval. The City Manager may transfer appropriations between object categories within a department without City Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector. The City's actual spending did not exceed appropriations in the current year.

Budgetary Accounting

The annual operating budgets of the General Fund are prepared and presented on the modified accrual basis of accounting for revenues and on the cash basis for expenditures, excluding internal service account activity of the General Fund.

The City utilizes encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. The City considers all appropriations to lapse at year-end; any open purchase orders to be honored in the subsequent budget year are reappropriated in the subsequent year's budget. As a result, encumbrances are not treated as the equivalent of expenditures in the budget and actual financial statements.

CITY OF GROVE
SCHEDULE OF CITY OF GROVE'S SHARE OF NET PENSION LIABILITIES*
JUNE 30, 2016

	2016	2015
Oklahoma Police Pension and Retirement Plan (OPPRS)		
City's portion of net pension liability	0.3198%	0.3188%
City's proportionate share of the net pension liability	$ 13,039	$ (107,348)
City's covered-employee payroll	$ 828,254	$ 1,000,482
City's proportional share of the net pension liability as a percentage of its covered employee payroll	1.574%	-10.730%
Plan fiduciary net position as a percentage of the total pension liability	99.82%	101.53%
Oklahoma Firefighters Pension and Retirement Plan (OFPRS)		
City's portion of net pension liability	0.0873%	0.0844%
City's proportionate share of the net pension liability	$ 926,341	$ 867,776
City's covered-employee payroll	$ 238,457	$ 260,389
City's proportional share of the net pension liability as a percentage of its covered employee payroll	388.47%	333.26%
Plan fiduciary net position as a percentage of the total pension liability	68.27%	68.12%
Oklahoma Public Employees Retirement System (OPERS)		
City's portion of net pension liability	0.1250%	0.1275%
City's share of the net pension liability	$ 449,762	$ 234,044
City's covered-employee payroll	$ 2,262,005	$ 2,065,133
City's proportional share of the net pension liability as a percentage of its covered employee payroll	19.88%	11.33%
Plan fiduciary net position as a percentage of the total pension liability	93.6%	88.6%

*This information is reported for the cost sharing multiple employer plans and is as of 7/1/2015
GASB Statement No. 68 requires ten years of information to be reported in this table. However, until a full 10-year trend is compiled, the City will present information that is available.

CITY OF GROVE
SCHEDULE OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2016

	2016	2015
Oklahoma Police Pension and Retirement Plan (OPPRS)		
Statutorily required contribution	$ 127,047	$ 117,620
Contributions related to the statutorily required contributions (does not include State contributions)	127,047	117,620
Contribution (deficiency) excess	-	-
City's covered-employee payroll	$ 935,424	$ 1,000,482
Contributions as a percentage of covered-employee payroll	14%	11.76%
Oklahoma Firefighters Pension and Retirement Plan (OFPRS)		
Statutorily required contribution	$ 32,895	$ 32,142
Contributions related to the statutorily required contributions (does not include State contributions)	32,895	32,142
Contribution (deficiency) excess	-	-
City's covered-employee payroll	$ 234,691	$ 260,389
Contributions as a percentage of covered-employee payroll	14%	12.34%
Oklahoma Public Employees Retirement System (OPERS)		
Statutorily required contribution	$ 363,722	$ 370,118
Contributions related to the statutorily required contributions	363,722	370,118
Contribution (deficiency) excess	-	-
City's covered-employee payroll	$ 2,204,376	$ 2,065,133
Contributions as a percentage of covered-employee payroll	16.50%	17.92%

Data reported is for the City's fiscal year ending June 30

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OTHER INFORMATION

Other information includes financial statements and schedules not required by the GASB, nor are a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Combining Schedules – Non-major governmental funds
- Schedule of Expenditures of Federal Awards
- Schedule of Revenue Bond and Note Coverage

CITY OF GROVE, OKLAHOMA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	GOVERNMENTAL FUNDS										
	Street and Alley Fund	Library Fund	Olympus Cemetery Fund	Special Fire Dept Fund	Drug Forfeiture Fund	Special Police Fund	Police Technology Fund	Animal Control Fund	Veteran's Memorial Perpetual Care Fund	Grove Del Co Fire Tax Fund	Total Nonmajor Governmental Funds
ASSETS											
Cash	$ -	$ 5,541	$ 13,563	$ 8,781	$ 5,730	$ 1,223	$ 4,438	$ 6,432	$ 200	$ -	$ 45,908
Receivables:											
Due from other governments	13,077	-	-	-	-	-	-	-	-	73,964	87,041
Total assets	$ 13,077	$ 5,541	$ 13,563	$ 8,781	$ 5,730	$ 1,223	$ 4,438	$ 6,432	$ 200	$ 73,964	$ 132,949
LIABILITIES											
Accounts payable	$ -	$ -	$ -	$ 1,809	$ -	$ 24	$ -	$ -	$ 100	$ -	$ 1,933
Total liabilities	-	-	-	1,809	-	24	-	-	100	-	1,933
FUND BALANCES											
Restricted	-	-	13,563	-	-	-	-	-	-	73,964	87,527
Committed	-	-	-	-	-	-	-	6,400	-	-	6,400
Assigned	13,077	5,541	-	6,972	5,730	1,199	4,438	32	100	-	37,089
Total fund balances	13,077	5,541	13,563	6,972	5,730	1,199	4,438	6,432	100	73,964	131,016
Total liabilities and fund balances	$ 13,077	$ 5,541	$ 13,563	$ 8,781	$ 5,730	$ 1,223	$ 4,438	$ 6,432	$ 200	$ 73,964	$ 132,949

CITY OF GROVE, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

GOVERNMENTAL FUNDS

	Street and Alley Fund	Library Fund	Olympus Cemetery Fund	Special Fire Dept Fund	Drug Forfeiture Fund	Special Police Fund	Police Technology Fund	Animal Control Fund	Veteran's Memorial Perpetual Care Fund	Grove Del Co Fire Tax Fund	Total Nonmajor Governmental Funds
REVENUES											
Donations	$ -	$ -	$ -	$ 7,790	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,790
Intergovernmental	78,938	-	-	-	-	-	-	-	-	54,038	132,976
Charges for services	-	-	3,425	-	-	-	-	-	-	-	3,425
Fines and forfeitures	-	-	-	-	5,702	-	4,066	-	-	-	9,768
Licenses and permits	-	-	-	-	-	-	-	80	-	-	80
Investment income	-	99	502	183	67	53	109	110	-	98	1,221
Miscellaneous	-	-	75	7,500	-	-	842	-	400	-	8,817
Total revenues	78,938	99	4,002	15,473	5,769	53	5,017	190	400	54,136	164,077
EXPENDITURES											
Public safety	-	-	-	18,356	794	2,248	9,144	25	-	10,753	41,320
Cemetery	-	-	18,671	-	-	-	-	-	-	-	18,671
Cultural, Parks, Recreation	-	-	-	-	-	-	-	-	300	-	300
Total expenditures	-	-	18,671	18,356	794	2,248	9,144	25	300	10,753	60,291
OTHER FINANCING SOURCES (USES)											
Debt service	-	-	-	-	-	-	-	-	-	(18,281)	(18,281)
Transfers out	(85,166)	-	-	-	-	-	-	-	-	-	(85,166)
Total other financing sources (uses)	(85,166)	-	-	-	-	-	-	-	-	(18,281)	(103,447)
NET CHANGE IN FUND BALANCES	(6,228)	99	(14,669)	(2,883)	4,975	(2,195)	(4,127)	165	100	25,102	339
FUND BALANCES - BEGINNING	19,305	5,442	28,232	9,855	755	3,394	8,565	6,267	-	48,862	130,677
FUND BALANCES - ENDING	$ 13,077	$ 5,541	$ 13,563	$ 6,972	$ 5,730	$ 1,199	$ 4,438	$ 6,432	$ 100	$ 73,964	$ 131,016
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(CONTINUED)

CITY OF GROVE, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA# Number	Pass-through Identifying Number	Federal Expenditures
FEDERAL AWARDS:			
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Passed through the Oklahoma State Department of Emergency Management			
Hazard Mitigation Grants	97.039	FEMA-4222-DR-OK	$ 37,650
	97.039	FEMA-4117-DR-OK	37,875
	97.039	FEMA-4109-DR-OK	75,900
Emergency Management Performance Grants	97.042	EMPG 15	2,500
	97.042	EMPG 16	5,000
			158,925
U.S. DEPARTMENT OF FISH AND WILDLIFE:			
Passed through the Oklahoma Department of Wildlife Conservation:			
Sport Fish Restoration Program	15.605	F15AF01086	2,068,937
U.S. DEPARTMENT OF TRANSPORTATION:			
Passed through the Federal Aviation Administration			
Airport Improvement Program	20.106	3-40-0035-017-2014	1,244,231
Passed through the Oklahoma Highway Safety Office:			
State and Community Highway Safety	20.600	PT-16-03-08-07	10,905
State and Community Highway Safety	20.600	PT-15-03-08-06	4,052
			1,259,188
U.S. DEPARTMENT OF JUSTICE:			
Passed through the Oklahoma State Department of Education			
Juvenille Accountability Block Grants	16.523	FY15	6,000
TOTAL FEDERAL AWARDS			$ 3,493,050

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

This schedule includes the federal grant activity of the City of Grove, Oklahoma under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) the Uniform Guidance. Because the schedule presents only a selected portion of the operations of the City of Grove, Oklahoma, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Grove, Oklahoma.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting which may be different from other information contained in the City's financial statements.

GROVE MUNICIPAL SERVICES AUTHORITY
SCHEDULE OF REVENUE BOND AND NOTE COVERAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Gross Revenue Available for Debt Service:		
Water system revenues	$	2,924,558
Wastewater/Sewer system revenues		535,995
Investment income		46,084
Sales tax revenues (1)		4,517,078
Total Gross Revenues Available		8,023,715
Water and waste water/sewer operating expense (2)		2,210,564
Net Revenues Available for Debt Service	$	5,813,151
Annual Debt Service Requirements for Term:		
2003 GMSA OWRB CWSRF Note	$	481,462
2005 GMSA Sales Tax Revenue Note		373,154
2006 GMSA Sales Tax Revenue Note		251,650
2009 GMSA OWRB CWSRF Note		132,624
2011 GMSA Promissory Note		112,263
2011 GMSA Sales Tax Revenue Note		174,290
2013 GMSA OWRB DWSRF Note		647,746
Total annual Debt Service	$	2,173,189
Computed Coverage		2.67
Coverage Requirement - Revenue Bond and Note Indentures		1.25

(1) 2.4 % of the 3.4% of sales tax revenues levied by the City
(2) Excludes depreciation; administration expenses are prorated to all service revenues.

Anne Marie Elfrink, MS, CPA

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

To the Honorable Mayor and Members of the City Council
City of Grove, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Grove, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Grove, Oklahoma's basic financial statements, and have issued my report thereon dated December 15, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grove, Oklahoma's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Anne Marie Elfrink, MS, CPA

Anne Marie Elfrink, MS, CPA
Tulsa, Oklahoma
December 15, 2016

Anne Marie Elfrink, MS, CPA

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and Members of the City Council
City of Grove, Oklahoma

Report on Compliance for Each Major Federal Program

I have audited the City of Grove's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Grove's major federal programs for the year ended June 30, 2016. The City of Grove's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the City of Grove's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Grove's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for our opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the City of Grove's compliance.

Opinion on Each Major Federal Program

In my opinion, the City of Grove complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items [2016-1]. My opinion on each major federal program is not modified with respect to these matters.

The City of Grove's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Grove's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City of Grove is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Grove's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the

effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Grove's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Anne Marie Elfrink, MS, CPA

Anne Marie Elfrink, MS, CPA
Tulsa, Oklahoma
December 15, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF GROVE, OKLAHOMA

Year ended June 30, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiencies identified that are not considered to be material weaknesses? *No*
- Noncompliance material to financial statements noted? *No*

Federal Awards

Internal control over major programs:

- Material weaknesses identified? *No*
- Significant deficiencies identified that are not considered to be material weaknesses? *No*

Type of auditor's report issued on compliance for major programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with the *Uniform Guidance*? *Yes*

Identification of major programs:

CFDA Number	Federal Program
15.605	*Sport Fish Restoration Program*
20.106	*Airport Improvement Program*

Dollar threshold used to distinguish between type A and type B programs: *$750,000*

Auditee qualified as low-risk auditee? *No*

Note: The City has not prepared a *Summary Schedule of Prior Audit Findings and Corrective Action Plan* as there were no prior year findings.

Section II – Financial Statement Finding

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

2016-1 Equipment and Real Property Management

15.605 Sport Fish Restoration Program passed through the Oklahoma Department of Wildlife Conservation

Criteria: Federal grant recipients shall, at a minimum, provide the equivalent insurance coverage for real property and equipment acquired with Federal Funds as provided to property owned by the recipient. 2 CFR Ch. II (1–1–06 Edition), § 215.31

Condition: The City of Grove did not secure adequate insurance coverage for the docks constructed under the Department of Wildlife CFDA 15.605 grant. The property was placed in service prior to the City securing insurance.

Questioned costs: None

Context: A review of insurance schedules immediately following the date the assets were placed in service did not show coverage of the assets. This was confirmed by the City's Treasurer.

Effect: The docks constructed with federal funds were placed in service while at risk for loss.

Cause: Employees were aware of the federal insurance requirements, but believed that the coverage for the park included the docks.

Recommendation: Management should secure insurance coverage that includes the docks.

Views of responsible officials and planned corrective actions: City management is working with the carrier to assure that the docks are covered.