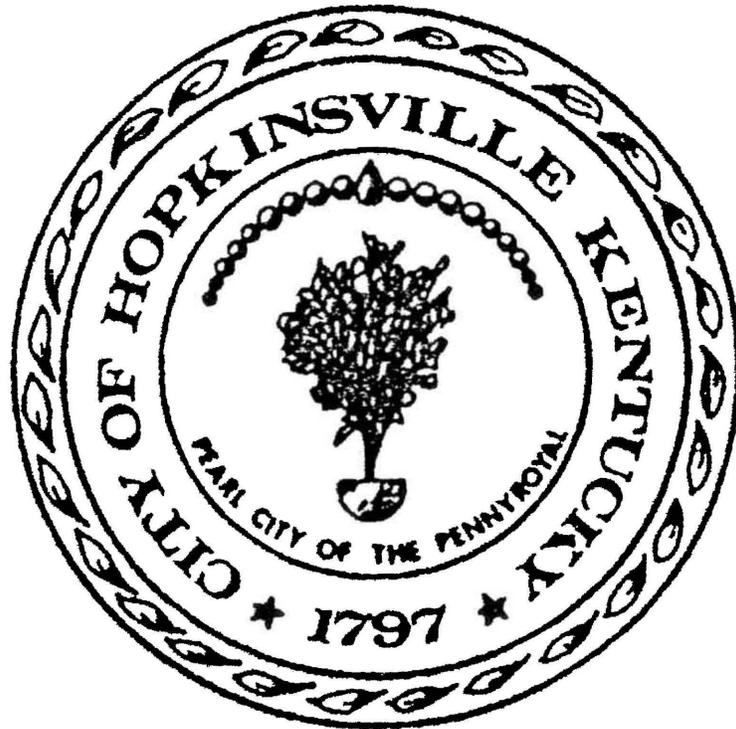


**CITY OF HOPKINSVILLE, KENTUCKY
BASIC FINANCIAL STATEMENTS**



**For the Year Ended
June 30, 2008**

**CITY OF HOPKINSVILLE
HOPKINSVILLE, KENTUCKY**

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& CO. – HOPKINSVILLE, LLP

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INDEPENDENT AUDITOR'S REPORTS

To the Honorable Mayor
and City Council
City of Hopkinsville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hopkinsville, Kentucky (the "City"), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

To the Honorable Mayor
and City Council
City of Hopkinsville, Kentucky
Page 2

The management's discussion and analysis and budgetary comparison on page 3 through 13 and 61 through 63 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hopkinsville, Kentucky's basic financial statements. The introductory section, combining nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

York, Neel + Co. - HOPKINSVILLE, LLP

Hopkinsville, Kentucky
December 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hopkinsville ('City') offers Management's Discussion and Analysis to provide a narrative overview and analysis of City financial activities for fiscal year ended June 30, 2008. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the financial statements (pages 14-26) provided in this document.

I. Financial Highlights

- Assets exceeded liabilities by \$18.08 million at the close of the 2007-08 fiscal year.
- Total net assets increased by \$2,723,667.
- At fiscal year end, City governmental funds reported a combined ending fund balance of \$8.60 million. Approximately 83.13% of this total amount, \$7.15 million, is unreserved and available for spending at the City's discretion.
- At the end of the current fiscal year, unreserved general fund balance was \$5.29 million, 26% of total general fund expenditures.

II. Overview of Financial Statements

This discussion and analysis serves as an introduction to the City's basic financial statements, which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

A. Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of City finances in a manner similar to private-sector business.

The Statement of Net Assets presents information on all City assets and liabilities, with the difference between assets and liabilities reported as net assets. Monitoring increases and/or decreases in net assets over time help the City to recognize whether its financial position is deteriorating, stagnating, or improving.

The Statement of Activities shows how City net assets changed during the past fiscal year. All net asset changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in the Statement of Activities for some items that will only result in cash flows in the future (e.g., uncollected taxes and earned but unused vacation leave).

These two government-wide financial statements separate City functions primarily supported by taxes and intergovernmental revenues (governmental activities) from other City functions that are intended to recover all or a significant portion of expenses through user fees and charges (business-type activities). City governmental activities include general government, public safety, public works, community and economic development, and parks and recreation. Business-type activities of the City include the family aquatic center and grounds maintenance.

Government-wide financial statements include not only the City (the primary government), but also three legally separate component units for which the City is financially accountable, Hopkinsville Water Environment Authority, Hopkinsville Solid Waste Authority, and Hopkinsville Surface and Storm Water Utility. Financial information for the component units are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 14-15 of this report.

B. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over segregated resources for specific activities or objectives. The City of Hopkinsville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. City funds can be divided into three categories:

1) Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike government-wide financial statements, however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at fiscal year-end. This information can help the City when it evaluates near-term financing requirements.

The City maintains fifteen (15) 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 Grants Fund, which are considered to be major funds. Data from the other thirteen (13) 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.

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation of the financial statements.

The basic governmental fund financial statements can be found at pages 16-19 of this report.

2) Proprietary Funds. The City maintains two different types of proprietary funds:

a. **Enterprise funds**. Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements and are used to account for operations:

- that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or

- where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City uses two enterprise funds to account for the Tie Breaker Family Aquatic Center and Grounds Maintenance, as well as the discretely presented component units that provide water and sewerage services, solid waste services, and storm water.

- b. Internal Service funds** are used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its health insurance operations.

Proprietary funds provide the same kind of information as government-wide financial statements, but in greater detail. Individual data for the proprietary fund financial statements is presented in the form of combining statements at pages 20-22 of this report.

3) Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government and are not reflected in government-wide financial statements because those resources are not available to support City programs. Data for the City's fiduciary fund (Police and Fireman Defined Benefit Pension Trust) is presented in the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets. The fiduciary fund financial statements are presented at pages 23-24 of this report.

C. Notes to the Financial Statements

These notes provide additional information crucial to fully understanding data provided in the government-wide and fund financial statements. Notes to the financial statements can be found at pages 27-59 of this report.

D. Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning City funding of its obligation to provide pension benefits to its employees and budgetary comparison schedules as required. The General Fund is the budgeted major fund for which budgetary comparison information is reported. Required and other supplementary information follow the notes to the financial statements.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the other supplementary information. Combining and fund statements and schedules can be found on pages 64-69 of this report.

III. Government-Wide Financial Analysis

As previously indicated, net assets may serve over time as a useful indicator of the City's financial position. City assets exceeded liabilities by \$18.08 million at June 30, 2008.

The largest portion of the City's net assets reflects its investment in capital assets (i.e., land, buildings, machinery, and equipment) less outstanding related debt used to acquire those assets. The City uses these capital assets to provide service to citizens and as a result, these assets are not available for future spending. The City's capital assets investment is reported net of related debt, but the resources to pay this debt must be provided from other sources since the capital assets cannot be used to liquidate the liabilities.

At the end of the fiscal year, the City is able to report positive balances in the portion of net assets invested in capital assets, net of related debt, and in restricted net assets both for the government as a whole as well as its separate governmental and business-type activities. Governmental activities report a positive balance in the unrestricted portion of net assets; business-type activities report a negative balance in the unrestricted portion of net assets. The government as a whole reflects a positive balance.

City of Hopkinsville Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 10,554,896	\$ 8,205,144	\$ 495	\$ (34,944)	\$ 10,555,391	\$ 8,170,200
Capital assets	19,634,680	18,593,681	4,352,514	4,307,598	23,987,194	22,901,279
Total assets	<u>\$ 30,189,576</u>	<u>\$ 26,798,825</u>	<u>\$ 4,353,009</u>	<u>\$ 4,272,654</u>	<u>\$ 34,542,585</u>	<u>\$ 31,071,479</u>
Long-term liabilities outstanding	\$ 10,680,571	\$ 10,251,523	\$ 39,110	\$ 29,854	\$ 10,719,681	\$ 10,281,377
Other liabilities	1,429,319	1,191,283	53,418	14,645	1,482,737	1,205,928
Total liabilities	<u>\$ 12,109,890</u>	<u>\$ 11,442,806</u>	<u>\$ 92,528</u>	<u>\$ 44,499</u>	<u>\$ 12,202,418</u>	<u>\$ 11,487,305</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 11,534,523	\$ 11,408,970	\$ 4,352,514	\$ 4,307,599	\$ 15,887,037	\$ 15,716,568
Restricted	761,175	709,013	-	-	761,175	709,013
Unrestricted	5,783,988	3,238,036	(90,033)	(79,443)	5,691,955	3,158,593
Total net assets	<u>\$ 18,079,686</u>	<u>\$ 15,356,019</u>	<u>\$ 4,260,481</u>	<u>\$ 4,228,155</u>	<u>\$ 22,340,167</u>	<u>\$ 19,584,174</u>

A. Analysis of the City's Operations

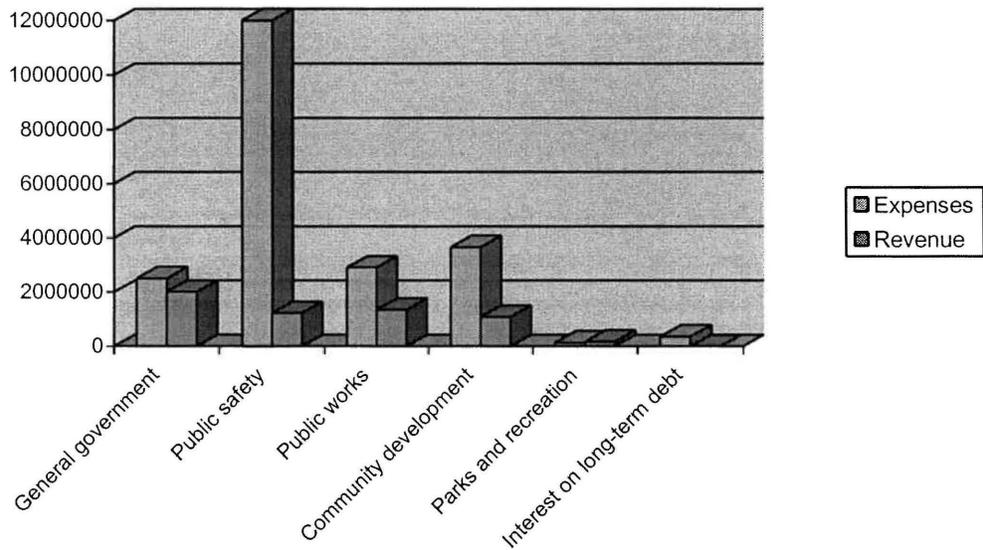
The following table provides a summary of the City's operations for the year ended June 30, 2008. Governmental activities increased the City's net assets by \$2.72 million. Business-type activities increased the city's net assets by \$32,326.

City of Hopkinsville – Changes in Net Assets

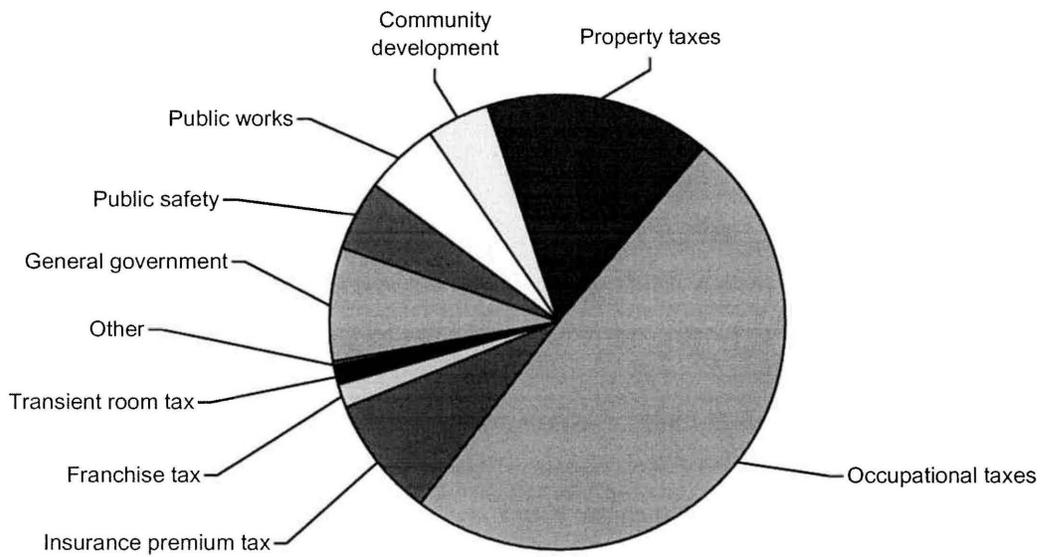
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services and sales	\$ 1,601,171	\$ 1,421,203	\$ 437,720	\$ 306,306	\$ 2,038,891	\$ 1,727,509
Operating grants/contributions/interest	2,821,999	2,747,354	-	-	2,821,999	2,747,354
Capital grants/contributions	1,398,695	1,136,602	-	-	1,398,695	1,136,602
General revenues:						
Property taxes	4,036,729	3,840,840	-	-	4,036,729	3,840,840
Occupational taxes	12,252,101	9,977,514	-	-	12,252,101	9,977,514
Insurance premium tax	2,123,573	2,220,227	-	-	2,123,573	2,220,227
Franchise tax	452,286	398,009	-	-	452,286	398,009
Transient room tax	298,160	244,722	-	-	298,160	244,722
Intergovernmental	-	-	-	-	-	-
Investment income	19,472	11,112	1,246	576	20,718	11,688
Gain or loss on sale of capital assets	40,037	31,298	-	7,738	40,037	39,036
Other	38,788	149,267	-	-	38,788	149,267
Total revenues	<u>\$ 25,083,011</u>	<u>\$ 22,178,148</u>	<u>\$ 438,966</u>	<u>\$ 314,620</u>	<u>\$ 25,521,977</u>	<u>\$ 22,492,768</u>
Expenses:						
General government	\$ 2,505,387	\$ 2,708,106	\$ -	\$ -	\$ 2,505,387	\$ 2,708,106
Public safety	12,021,761	11,631,175	-	-	12,021,761	11,631,175
Public works	2,909,778	2,710,691	-	-	2,909,778	2,710,691
Community development	3,668,336	3,792,400	-	-	3,668,336	3,792,400
Parks and recreation	134,787	-	-	-	134,787	-
Interest on long-term debt	360,664	267,302	-	-	360,664	267,302
Tie Breaker Family Aquatic	-	-	515,233	240,365	515,233	240,365
Grounds maintenance	-	-	650,038	496,578	650,038	496,578
Total expenses	<u>\$ 21,600,713</u>	<u>\$ 21,109,674</u>	<u>\$ 1,165,271</u>	<u>\$ 736,943</u>	<u>\$ 22,765,984</u>	<u>\$ 21,846,617</u>
Increase in net assets before Transfers	\$ 3,482,298	\$ 1,068,474	\$ (726,305)	\$ (422,323)	\$ 2,755,993	\$ 646,151
Transfers	(758,631)	(4,370,932)	758,631	4,370,932	-	-
Transfer of net liabilities to component unit	-	-	-	7,995,514	-	7,995,514
Increase (decrease) in net assets	2,723,667	(3,302,458)	32,326	11,944,123	2,755,993	8,641,665
Net assets – 7/1/07	15,356,019	18,658,477	4,228,155	(7,715,968)	19,584,174	10,942,509
Net assets – 6/30/08	<u>\$ 18,079,686</u>	<u>\$ 15,356,019</u>	<u>\$ 4,260,481</u>	<u>\$ 4,228,155</u>	<u>\$ 22,340,167</u>	<u>\$ 19,584,174</u>

B. Governmental Activities

Expenses and Program Revenues – Governmental Activities



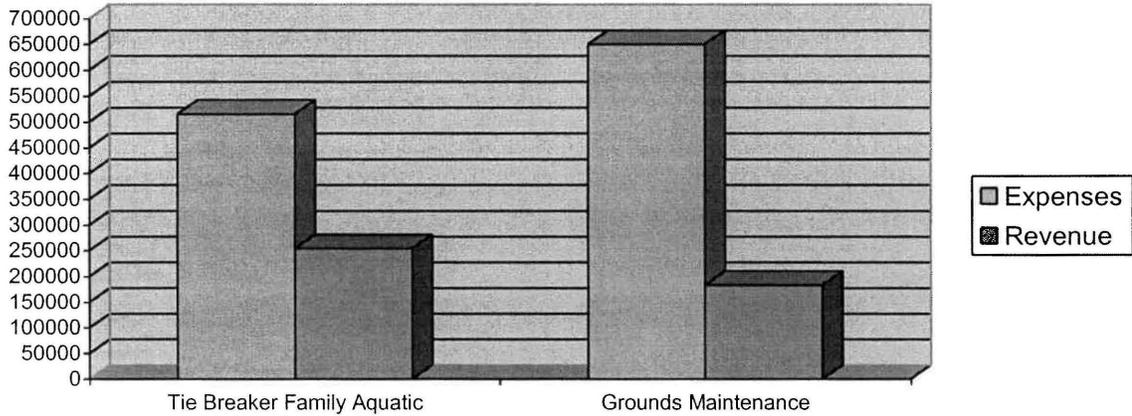
Revenue by Source – Governmental Activities



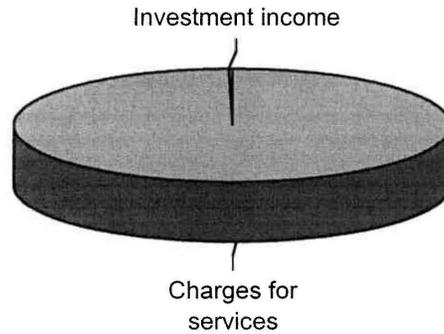
C. Business-Type Activities

Business-type activities increased the City's net assets by \$32,326 thousand.

Expenses and Revenues – Business-Type Activities



Revenue by Source – Business-Type Activities



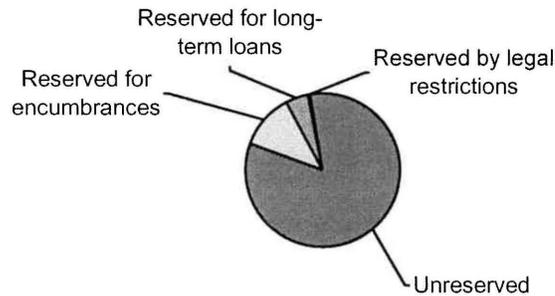
D. Governmental Funds

At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$8.60 million. Approximately 83.1% of this total amount, \$7.15 million, is unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior year (\$1.01 million); 2) to make certain long-term loans (\$398,894); and 3) legally restricted as to purpose (\$37,240).

The total ending fund balances of governmental funds show an increase of \$1.98 million over the prior year. This decrease is primarily the result of events and programs described within the analysis of the City's governmental activities.

D. Governmental Funds, continued

Ending Fund Balances – Governmental Activities



The general fund is the chief operating fund of the City. At the end of the 2007-08 fiscal year, the general fund unreserved fund balance was \$5,293,893, while total fund balance was \$6,042,453. As a measure of general fund liquidity, readers may compare both unreserved fund balance and total fund balance to total general fund expenditures. Unreserved fund balance represents 26% and total fund balance represents 29% of total general fund expenditures (\$20.6 million).

The grants fund has a total fund balance of \$33,791. The total fund balance is unreserved and available for spending on different projects.

E. Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the respective proprietary funds are:

Tie Breaker Family Aquatic	\$	31,554
Grounds Maintenance	\$	135,232

Total increase in net assets for Tie Breaker Family Aquatic was \$57,969 and total decrease in net assets for Grounds Maintenance was (\$33,731). This increase or decrease is primarily the result of events and programs described within the analysis of the City's business-type activities.

IV. General Fund Budgetary Highlights

Differences between the original appropriations budget and the final amended budget resulted in a \$2,020,711 increase in appropriations and can be briefly summarized as follows:

- \$ 5,696 increase in general administrative
- \$ 83,066 increase in tax department
- \$ 16,030 increase in legislative
- \$ 72,948 decrease in police
- \$ 292,112 decrease in fire
- \$ 382,975 increase in other public safety
- \$ 11,000 increase in public works administrative
- \$ 1,841 increase in street
- \$ 323,088 decrease in other public works
- \$ 399 increase in service center
- \$2,200,219 increase in community development
- \$ 7,633 increase in parks and recreation
- \$ - no change in debt service principal
- \$ - no change in interest charges

The net increase to appropriations of \$2,020,711 was to be budgeted from the available fund balance. During the year, however, expenditures were less than budgetary estimates, thus eliminating the need to draw upon existing fund balance.

Differences between the final appropriations budget and the actual appropriations resulted in \$2,344,467 decrease in actual appropriations in comparison to the budgeted appropriations. The most significant differences were due to the timing of the construction in progress of the Old First City Bank Building renovations, the North Drive Complex renovations, and appropriations for programs that were not expended during the 2007-2008 fiscal year.

V. Capital Asset and Debt Administration

A. Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2008, is \$23.99 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, bridges, and construction in progress.

A. Capital Assets, continued

**City of Hopkinsville – Capital Assets
(net of depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,755,621	\$ 1,755,621	\$ 260,159	\$ 260,159	\$ 2,015,780	\$ 2,015,780
Construction in Progress	1,011,643	153,886	-	-	1,011,643	153,886
Land improvements	2,627,777	2,697,678	64,725	63,670	2,692,502	2,761,348
Buildings	3,714,475	3,443,287	3,665,027	3,760,857	7,379,502	7,204,144
Machinery and equipment	3,186,797	3,267,019	362,603	222,912	3,549,400	3,489,931
Infrastructure	<u>7,338,367</u>	<u>7,276,190</u>	<u>-</u>	<u>-</u>	<u>7,338,367</u>	<u>7,276,190</u>
Total	<u>\$19,634,680</u>	<u>\$18,593,681</u>	<u>\$4,352,514</u>	<u>\$ 4,307,598</u>	<u>\$23,987,194</u>	<u>\$22,901,279</u>

Additional information on City capital assets can be found in Note 4 in the footnotes at pages 43-45.

B. Long-Term Debt

At year-end the City had \$9.1 million in outstanding notes, bonds and capital leases, compared to \$8.4 million at June 30, 2007, an increase of \$664 thousand. The following table illustrates the changes in outstanding notes, bonds and capital leases:

	Governmental Activities	
	2008	2007
KLC General Obligation bonds	\$ 6,535,708	\$7,071,229
KLC Revenue bonds	1,300,000	-
KLC Softball Complex bond	<u>1,264,449</u>	<u>1,364,481</u>
Total	<u>\$ 9,100,157</u>	<u>\$8,435,710</u>

The City's legal debt limit under §158 of the Kentucky Constitution is 10% of total assessed value of taxable property in Hopkinsville; therefore, the debt limit is \$142,808,914. The City's latest bond rating is A.

C. Types of Municipal Debt

Additional information on the City's long-term debt can be found at pages 49-53.

VI. Economic Factors and Next Year's Budgets and Rates

A. Unemployment Rate. The unemployment rate for the City of Hopkinsville (Christian County) as of June 2008 was 6.5%. This rate compares unfavorably to state and federal unemployment rates, 5.5% and 4.6%, respectively.

B. Inflationary Trends. Inflationary trends in the City compare favorably to state and national trends.

The current and future needs of the City were considered when the 2007-2008 budget for the City of Hopkinsville was prepared. The beginning general fund balance for fiscal year 2007-2008 was \$4,089,074, and has estimated an ending fund balance of \$6,042,453. At the present time the City is in good financial condition. The City passed an increase in payroll taxes effective October 1, 2007, from 1.50% to 2.00%. The rate will decrease in July 2009 to 1.85%.

VII. Requests for Information

This financial report is designed to provide a general financial overview for those interested in the City of Hopkinsville government finances. Questions or requests for additional financial information may be addressed to Robert Martin, Finance Director, City of Hopkinsville, Hopkinsville, KY 42240. Complete financial statements for the Hopkinsville Water Environment Authority component unit may be obtained at the entity's administrative office located at 401 East 9th Street, Hopkinsville, KY 42240. Complete financial statements for the Hopkinsville Surface and Storm Water Utility component unit may be obtained at the entity's administrative office located at 101 North Main Street, Hopkinsville, KY 42240. Complete financial statements for the Hopkinsville Solid Waste Authority component unit may be obtained at the entity's administrative office located at 5665 Mt. Zoar Road, Hopkinsville, KY 42240.

City of Hopkinsville, Kentucky
Statement of Net Assets
June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Pooled cash and cash equivalents	\$ 6,225,903	\$ 201,230	\$ 6,427,133	\$ -
Non-pooled cash and cash equivalents	672,364	58,084	730,448	2,987,009
Investments	-	-	-	-
Accounts receivable	-	-	-	1,267,616
Taxes receivable	1,752,594	-	1,752,594	-
Interest receivable	4,994	-	4,994	-
Intergovernmental receivables	47,813	-	47,813	-
Other receivables	467,548	-	467,548	650,027
Prepaid expenses	-	-	-	247,198
Internal balances	258,819	(258,819)	-	-
Due from component unit	208,341	-	208,341	-
Deferred charges	130,013	-	130,013	723,750
Inventory	-	-	-	246,314
Noncurrent restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	162,652	-	162,652	5,302,745
Investments	284,631	-	284,631	-
Permanently restricted assets:				
Cash and cash equivalents	121,122	-	121,122	-
Investments	218,102	-	218,102	-
Capital Assets	-	-	-	-
Land and construction in progress	2,767,264	260,159	3,027,423	32,406,199
Depreciable capital assets, net	<u>16,867,416</u>	<u>4,092,355</u>	<u>20,959,771</u>	<u>59,865,435</u>
Total capital assets	<u>19,634,680</u>	<u>4,352,514</u>	<u>23,987,194</u>	<u>92,271,634</u>
Total assets	<u>\$ 30,189,576</u>	<u>\$ 4,353,009</u>	<u>\$ 34,542,585</u>	<u>\$ 103,696,293</u>
LIABILITIES				
Accrued salaries	\$ 337,181	\$ 16,964	\$ 354,145	\$ 69,482
Accounts payable	181,057	29,552	210,609	529,408
Accrued liabilities	-	-	-	20,277
Bond issue cost payable	-	-	-	-
Claims payable	47,244	-	47,244	-
Accrued interest	53,553	-	53,553	286,556
Transient bond deposits	500	-	500	-
Construction retainage payable	-	-	-	1,236,435
Customer deposits	-	-	-	85,756
Note payable-UDAG/City	-	-	-	195,000
Due to primary government	-	-	-	113,341
Noncurrent liabilities:				
Due within one year	662,546	-	662,546	3,359,444
Due beyond one year	9,846,226	-	9,846,226	64,327,040
Compensated absences:				
Due within one year	147,238	6,902	154,140	266,021
Due beyond one year	<u>834,345</u>	<u>39,110</u>	<u>873,455</u>	<u>-</u>
Total liabilities	<u>12,109,890</u>	<u>92,528</u>	<u>12,202,418</u>	<u>70,488,760</u>
NET ASSETS				
Invested in capital assets, net of related debt	11,534,523	4,352,514	15,887,037	36,740,910
Restricted for:				
Other	-	-	-	2,824,414
Perpetual care:				
Expendable	421,951	-	421,951	-
Nonexpendable	339,224	-	339,224	-
Unrestricted	<u>5,783,988</u>	<u>(92,033)</u>	<u>5,691,955</u>	<u>(6,357,791)</u>
Total net assets	<u>18,079,686</u>	<u>4,260,481</u>	<u>22,340,167</u>	<u>33,207,533</u>
Total liabilities and net assets	<u>\$ 30,189,576</u>	<u>\$ 4,353,009</u>	<u>\$ 34,542,585</u>	<u>\$ 103,696,293</u>

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
Statement of Activities
For the Year Ended June 30, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
PRIMARY GOVERNMENT								
Governmental activities:								
General government	\$ (2,505,387)	\$ 1,561,463	\$ 447,492	\$ -	\$ (496,432)	\$ -	\$ (496,432)	\$ -
Public safety	(12,021,761)	25,307	985,524	211,291	(10,799,639)	-	(10,799,639)	-
Public works	(2,909,778)	-	701,656	639,545	(1,568,577)	-	(1,568,577)	-
Community development	(3,668,336)	14,401	517,912	547,859	(2,588,164)	-	(2,588,164)	-
Parks and recreation	(134,787)	-	169,415	-	34,628	-	34,628	-
Interest on long-term debt	(360,664)	-	-	-	(360,664)	-	(360,664)	-
Total governmental activities	<u>(21,600,713)</u>	<u>1,601,171</u>	<u>2,821,999</u>	<u>1,398,695</u>	<u>(15,778,848)</u>	<u>-</u>	<u>(15,778,848)</u>	<u>-</u>
Business-type activities:								
Tie Breaker Family Aquatic	(515,233)	254,325	-	-	-	(260,908)	(260,908)	-
Grounds Maintenance	(650,038)	183,395	-	-	-	(466,643)	(466,643)	-
Total business-type activities	<u>(1,165,271)</u>	<u>437,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(727,551)</u>	<u>(727,551)</u>	<u>-</u>
Total - primary government	<u>\$ (22,765,984)</u>	<u>\$ 2,038,891</u>	<u>\$ 2,821,999</u>	<u>\$ 1,398,695</u>	<u>(15,778,848)</u>	<u>(727,551)</u>	<u>(16,506,399)</u>	<u>-</u>
COMPONENT UNITS								
Hopkinsville Water Environment Authority	(10,830,950)	9,270,328	-	980,615	-	-	-	(580,007)
Hopkinsville Solid Waste Authority	(4,401,131)	5,119,831	-	-	-	-	-	718,700
Hopkinsville Surface and Stormwater	(735,087)	1,142,898	-	-	-	-	-	407,811
Total - component units	<u>(15,967,168)</u>	<u>15,533,057</u>	<u>-</u>	<u>980,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>546,504</u>
GENERAL REVENUES								
Property taxes					4,036,729	-	4,036,729	-
Occupational taxes					12,252,101	-	12,252,101	-
Insurance premium tax					2,123,573	-	2,123,573	-
Franchise tax					452,286	-	452,286	-
Transient room tax					298,160	-	298,160	-
Investment income					19,472	1,246	20,718	404,094
Gain (loss) on sale of capital assets					40,037	-	40,037	1,575
Other					38,788	-	38,788	311,344
Total general revenues					<u>19,261,146</u>	<u>1,246</u>	<u>19,262,392</u>	<u>717,013</u>
Transfers					(758,631)	758,631	-	-
Total general revenue & transfers					<u>18,502,515</u>	<u>759,877</u>	<u>19,262,392</u>	<u>717,013</u>
Change in net assets					2,723,667	32,326	2,755,993	1,263,517
Net assets beginning of year					15,356,019	4,228,155	19,584,174	31,944,016
Net assets end of year					<u>\$ 18,079,686</u>	<u>\$ 4,260,481</u>	<u>\$ 22,340,167</u>	<u>\$ 33,207,533</u>

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
Balance Sheet
Governmental Funds
June 30, 2008

	Major Fund		Other Governmental Funds	Total Governmental Funds
	General	Grants		
ASSETS				
Pooled cash and cash equivalents	\$ 4,874,652	\$ 4,994	\$ 1,373,814	\$ 6,253,460
Non-pooled cash and cash equivalents	-	-	258,442	258,442
Investments	-	-	502,733	502,733
Taxes receivable	1,474,134	-	-	1,474,134
Interest receivable	4,994	-	-	4,994
Interfund receivable	87,239	-	-	87,239
Intergovernmental receivables	24,473	-	-	24,473
Loans receivable	-	-	190,553	190,553
Due from component unit	-	-	208,342	208,342
Other receivables	-	200,335	-	200,335
Total assets	<u>\$ 6,465,492</u>	<u>\$ 205,329</u>	<u>\$ 2,533,884</u>	<u>\$ 9,204,705</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 85,358	\$ 84,299	\$ 11,400	\$ 181,057
Accrued salaries	337,181	-	-	337,181
Interfund payables	-	87,239	-	87,239
Bond issue cost payable	-	-	-	-
Transient bond deposits	500	-	-	500
Total liabilities	<u>423,039</u>	<u>171,538</u>	<u>11,400</u>	<u>605,977</u>
FUND BALANCES				
Reserved for encumbrances	748,560	-	266,223	1,014,783
Reserved for long-term loans	-	-	398,894	398,894
Reserved for legal restrictions	-	-	37,240	37,240
Unreserved, undesignated, reported in:				
General fund	5,293,893	-	-	5,293,893
Special revenue funds	-	33,791	1,455,571	1,489,362
Capital project funds	-	-	25,332	25,332
Permanent fund	-	-	339,224	339,224
Total fund balances	<u>6,042,453</u>	<u>33,791</u>	<u>2,522,484</u>	<u>8,598,728</u>
Total liabilities and fund balances	<u>\$ 6,465,492</u>	<u>\$ 205,329</u>	<u>\$ 2,533,884</u>	<u>\$ 9,204,705</u>

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
For the Fiscal Year Ended June 30, 2008

Total fund balance - total governmental funds	\$ 8,598,728
Amounts reported for governmental activities in the statement of net assets are different because:	
Taxes receivable based on availability criteria; \$29,820 property taxes, \$187,670 insurance premium taxes, and \$60,970 franchise taxes.	278,460
Loans to a component unit are considered a receivable on the government wide financial statements.	150,000
Payments from a component unit are considered a reduction in the receivable on the government wide financial statements.	(50,000)
Deferred charges - bond refinancing charges, amortizable over life of debt	130,013
Capital assets of \$34,962,505, net of accumulated depreciation of (\$15,327,825), are not financial resources and, therefore, are not reported in the funds. See note 4 for additional detail.	19,634,680
Internal service funds are used by management to charge the costs of health insurance to individual funds. Assets and liabilities of the internal service funds of \$622,893 are included in governmental activities in the statement of net assets, plus \$258,819 allocated to business type activities.	881,712
Long-term liabilities are not due and payable in the current period and are not reported in the funds. See notes to financial statements for detail.	(11,490,354)
Accrued interest	<u>(53,553)</u>
Net assets of governmental activities	<u>\$ 18,079,686</u>

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2008

	Major Fund		Other Governmental Funds	Total Governmental Funds
	General	Grants		
REVENUES				
Taxes	\$ 4,031,624	\$ -	\$ -	\$ 4,031,624
Licenses and permits	16,690,504	-	-	16,690,504
Fines and forfeits	22,717	-	-	22,717
Intergovernmental	565,802	1,017,991	1,289,386	2,873,179
Investment income	162,432	-	71,343	233,775
Charges for services	-	-	-	-
Other	<u>1,019,561</u>	<u>-</u>	<u>95,137</u>	<u>1,114,698</u>
Total revenues	<u>22,492,640</u>	<u>1,017,991</u>	<u>1,455,866</u>	<u>24,966,497</u>
EXPENDITURES				
Current:				
General government	2,431,496	35,907	66,732	2,534,135
Public safety	11,655,044	325,449	452,642	12,433,135
Public works	2,171,109	494,785	549,389	3,215,283
Community development	3,118,797	233,849	683,629	4,036,275
Parks and recreation	237,487	136,693	-	374,180
Debt service:				
Principal	635,553	-	-	635,553
Interest	<u>334,417</u>	<u>-</u>	<u>-</u>	<u>334,417</u>
Total expenditures	<u>20,583,903</u>	<u>1,226,683</u>	<u>1,752,392</u>	<u>23,562,978</u>
Excess of revenues over (under) expenditures	<u>1,908,737</u>	<u>(208,692)</u>	<u>(296,526)</u>	<u>1,403,519</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	153,721	-	883,116	1,036,837
Transfers to other funds	(1,449,116)	(4,721)	(341,630)	(1,795,467)
Issuance of debt	1,300,000	-	-	1,300,000
Sale of capital assets	<u>40,037</u>	<u>-</u>	<u>-</u>	<u>40,037</u>
Total other financing sources (uses)	<u>44,642</u>	<u>(4,721)</u>	<u>541,486</u>	<u>581,407</u>
Net change in fund balances	1,953,379	(213,413)	244,960	1,984,926
Fund balances beginning of year	<u>4,089,074</u>	<u>247,204</u>	<u>2,277,524</u>	<u>6,613,802</u>
Fund balances end of year	<u>\$ 6,042,453</u>	<u>\$ 33,791</u>	<u>\$ 2,522,484</u>	<u>\$ 8,598,728</u>

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
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, 2008

Net change in fund balances - total governmental funds	\$ 1,984,926
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$1,652,273 exceeded depreciation of (\$1,622,917) in the current period.	
	29,356
Governmental funds report construction in progress as expenditures. However, in the statement of activities, the cost of those assets is allocated to capital assets.	
	1,011,643
Governmental funds recognizes repayment of loans to a component unit as revenue. In the governmental activities, this is considered a reduction in a receivable.	
	(50,000)
Certain imposed nonexchange revenues were not recognized in the governmental funds because they were not available at June 30, 2008. The change in this account balance is a reconciling item for this statement.	
	780
Internal service funds are used by management to charge the costs of health insurance to individual funds. Net revenue (expense) of internal service funds of \$184,127 is reported with governmental activities, less (\$8,070) allocated to business-type activities.	
	176,057
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
	635,553
Proceeds from bond is revenue in the governmental funds, but the loan increases long-term liabilities in the statement of net assets.	
	(1,300,000)
Payment of bond issue cost is an expenditure in the governmental funds, but are included in deferred charges in the statement of net assets.	
	23,582
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. These include the decrease in compensated absences of (\$214,177), increase in accrued interest of \$12,896, reduction in pension obligation (\$23,840), and amortization of deferred charges of \$13,351.	
	<u>211,770</u>
Change in net assets of governmental activities	<u>\$ 2,723,667</u>

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Major Fund			
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
ASSETS				
Current assets:				
Pooled cash and cash equivalents	\$ -	\$ 201,230	\$ 201,230	\$ -
Non-pooled cash and cash equivalents	58,084	-	58,084	670,137
Accounts receivable	-	-	-	-
Total current assets	<u>58,084</u>	<u>201,230</u>	<u>259,314</u>	<u>670,137</u>
Noncurrent assets:				
Capital assets:				
Land and construction in progress	-	260,159	260,159	-
Depreciable capital assets, net	3,970,096	122,259	4,092,355	-
Total noncurrent assets	<u>3,970,096</u>	<u>382,418</u>	<u>4,352,514</u>	<u>-</u>
Total assets	<u>\$ 4,028,180</u>	<u>\$ 583,648</u>	<u>\$ 4,611,828</u>	<u>\$ 670,137</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 26,530	\$ 3,022	\$ 29,552	\$ -
Accrued salaries	-	16,964	16,964	-
Incurred, not yet reported	-	-	-	47,244
Accrued landfill closing costs	-	-	-	-
Compensated absences	-	6,902	6,902	-
Total current liabilities	<u>26,530</u>	<u>26,888</u>	<u>53,418</u>	<u>47,244</u>
Noncurrent liabilities:				
Accrued landfill closing costs	-	-	-	-
Compensated absences	-	39,110	39,110	-
Total noncurrent liabilities	<u>-</u>	<u>39,110</u>	<u>39,110</u>	<u>-</u>
Total liabilities	<u>26,530</u>	<u>65,998</u>	<u>92,528</u>	<u>47,244</u>
NET ASSETS				
Invested in capital assets	3,970,096	382,418	4,352,514	-
Unrestricted	31,554	135,232	166,786	622,893
Total net assets	<u>\$ 4,001,650</u>	<u>\$ 517,650</u>	<u>\$ 4,519,300</u>	<u>\$ 622,893</u>
Adjustment to reflect the consolidation of applicable internal service fund activities to enterprise funds			<u>(258,819)</u>	
Net assets of business-type activities			<u>\$ 4,260,481</u>	

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
Statement of Revenues,
Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Major Fund			
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
OPERATING REVENUES				
Charges for services	\$ 254,272	\$ 183,395	\$ 437,667	\$ -
Employee contributions	-	-	-	371,416
Employer contributions	-	-	-	1,185,650
Insurance reimbursement	-	-	-	-
Other income	53	-	53	-
Total operating revenues	<u>254,325</u>	<u>183,395</u>	<u>437,720</u>	<u>1,557,066</u>
OPERATING EXPENSES				
Salaries, wages and benefits	-	509,623	509,623	-
Management contract	199,017	-	199,017	-
Maintenance	3,671	66,585	70,256	-
Marketing	86,944	-	86,944	-
Operations	36,116	30,481	66,597	-
Utilities	46,677	14,463	61,140	-
Administrative	-	12,752	12,752	307,496
Supplies	18,544	752	19,296	-
Depreciation	124,264	23,452	147,716	-
Claims expense	-	-	-	1,084,915
Total operating expenses	<u>515,233</u>	<u>658,108</u>	<u>1,173,341</u>	<u>1,392,411</u>
Operating income (loss)	<u>(260,908)</u>	<u>(474,713)</u>	<u>(735,621)</u>	<u>164,655</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	1,246	-	1,246	19,472
Gain on sale of equipment	-	-	-	-
Total nonoperating revenues (expenses)	1,246	-	1,246	19,472
Income (loss) before transfers	<u>(259,662)</u>	<u>(474,713)</u>	<u>(734,375)</u>	<u>184,127</u>
Transfers in	317,631	441,000	758,631	-
Transfers out	-	-	-	-
Capital contributions	-	-	-	-
Transfer of net liabilities to component unit	-	-	-	-
Total transfers and capital contributions	<u>317,631</u>	<u>441,000</u>	<u>758,631</u>	<u>-</u>
Change in net assets	57,969	(33,713)	24,256	184,127
Net assets (liabilities) beginning of year	<u>3,943,681</u>	<u>551,363</u>	<u>4,495,044</u>	<u>438,766</u>
Net assets end of year	<u>\$ 4,001,650</u>	<u>\$ 517,650</u>	<u>\$ 4,519,300</u>	<u>\$ 622,893</u>
Adjustment to reflect the consolidation of applicable internal service fund activities to enterprise funds			<u>8,070</u>	
Change in net assets of business-type activities			<u>\$ 32,326</u>	

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 254,272	\$ 183,395	\$ 437,667	\$ 1,557,066
Other cash receipts	53	-	53	-
Cash payments to employees for services	-	(491,147)	(491,147)	-
Cash payments to suppliers	(364,439)	(122,011)	(486,450)	(307,496)
Cash payments for claims	-	-	-	(1,078,698)
Net cash provided by (used in) operating activities	<u>(110,114)</u>	<u>(429,763)</u>	<u>(539,877)</u>	<u>170,872</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	317,631	441,000	758,631	-
Transfers out	-	-	-	-
Net cash provided by (used in) noncapital financing activities	<u>317,631</u>	<u>441,000</u>	<u>758,631</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-
Payments for capital acquisitions	(192,631)	-	(192,631)	-
Net cash provided by (used in) capital and related financing activities	<u>(192,631)</u>	<u>-</u>	<u>(192,631)</u>	<u>-</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Transfer to trust	-	-	-	-
Interest on investments	1,246	-	1,246	19,472
Net cash provided by (used in) investment activities	<u>1,246</u>	<u>-</u>	<u>1,246</u>	<u>19,472</u>
Net increase (decrease) in cash and cash equivalents	16,132	11,237	27,369	190,344
Cash and cash equivalents, beginning of year	41,952	189,993	231,945	479,793
Cash and cash equivalents, end of year	<u>\$ 58,084</u>	<u>\$ 201,230</u>	<u>\$ 259,314</u>	<u>\$ 670,137</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (260,908)	\$ (474,713)	\$ (735,621)	\$ 164,655
Adjustments:				
Depreciation	124,264	23,452	147,716	-
(Increase) decrease in assets:				
Accounts receivable	-	-	-	-
Increase (decrease) in liabilities:				
Accounts payable	26,530	3,022	29,552	
Accrued liabilities	-	18,476	18,476	6,217
Net cash provided by (used in) operating activities	<u>\$ (110,114)</u>	<u>\$ (429,763)</u>	<u>\$ (539,877)</u>	<u>\$ 170,872</u>

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Pension Trust Funds</u>
ASSETS	
Accrued interest receivable	\$ 2,126
Money market	35,400
Corporate bond funds	<u>613,505</u>
 Total assets	 <u>\$ 651,031</u>
LIABILITIES	
Administration fees payable	\$ <u> -</u>
 Total liabilities	 <u> -</u>
NET ASSETS	
Held in trust for pension benefits	<u>651,031</u>
 Total liabilities and net assets	 <u>\$ 651,031</u>

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2008

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 397,522
Plan members	<u>-</u>
Total contributions	397,522
Investment earnings:	
Net appreciation (depreciation) in fair value of investments	70
Interest	24,242
Miscellaneous receipts	<u>2,817</u>
Total investment earnings	27,129
Less investment expense	<u>1,837</u>
Net investment earnings	<u>25,292</u>
Total additions	<u>422,814</u>
DEDUCTIONS	
Benefits	<u>407,454</u>
Change in net assets	15,360
Net assets beginning of year	<u>635,671</u>
Net assets end of year	<u>\$ 651,031</u>

The notes to the basic financial statements are an integral part of this statement.

City of Hopkinsville, Kentucky
Statement of Net Assets
Component Units
June 30, 2008

	Major		Nonmajor	Total
	Hopkinsville Water Environment Authority	Hopkinsville Solid Waste Authority	Hopkinsville Surface and Storm Water Utility	
ASSETS				
Cash and cash equivalents	\$ 969,859	\$ 1,491,569	\$ 525,581	\$ 2,987,009
Receivables	823,257	367,787	76,572	1,267,616
Inventory	246,314	-	-	246,314
Prepaid expenses	9,834	237,364	-	247,198
Restricted assets:				
Cash and cash equivalents	2,824,414	2,478,331	-	5,302,745
Deferred charges	723,750	-	-	723,750
Notes receivable	650,027	-	-	650,027
Capital assets, net of depreciation:				
Land and construction in progress	31,739,097	667,102	-	32,406,199
Depreciable capital assets	<u>58,664,611</u>	<u>1,200,824</u>	<u>-</u>	<u>59,865,435</u>
Total assets	<u>\$ 96,651,163</u>	<u>\$ 6,442,977</u>	<u>\$ 602,153</u>	<u>\$ 103,696,293</u>
LIABILITIES				
Current portion of long-term debt	\$ 2,442,333	\$ -	\$ -	\$ 2,442,333
Current portion of capital lease obligation	8,970	120,121	-	129,091
Due to Oak Grove (current portion)	788,020	-	-	788,020
Customer deposits	85,756	-	-	85,756
Accrued interest	280,283	-	6,273	286,556
Accounts payable	360,430	142,034	26,944	529,408
Accrued salaries and compensated absences	144,827	190,676	-	335,503
Accrued liabilities	-	20,277	-	20,277
Accrued landfill closing costs	-	-	-	-
Note payable-UDAG	-	-	195,000	195,000
Construction retainage payable	1,236,435	-	-	1,236,435
Long-term liabilities:				
Revenue bonds payable (net of current portion)	25,510,000	-	-	25,510,000
KIA - loans payable (net of current portion)	21,374,711	-	-	21,374,711
Capital lease obligation (net of current portion)	28,404	126,007	-	154,411
Accrued landfill closure costs	-	13,024,696	-	13,024,696
Due to Oak Grove (net of current portion)	2,193,222	-	-	2,193,222
KY Rural Finance loans payable (net of current portion)	2,070,000	-	-	2,070,000
City of Hopkinsville - loan payable	<u>113,341</u>	<u>-</u>	<u>-</u>	<u>113,341</u>
Total liabilities	<u>56,636,732</u>	<u>13,623,811</u>	<u>228,217</u>	<u>70,488,760</u>
NET ASSETS				
Invested in capital assets, net of related debt	35,119,112	1,621,798	-	36,740,910
Net assets, restricted	2,824,414	-	-	2,824,414
Net assets, unrestricted	<u>2,070,905</u>	<u>(8,802,632)</u>	<u>373,936</u>	<u>(6,357,791)</u>
Total net assets	<u>40,014,431</u>	<u>(7,180,834)</u>	<u>373,936</u>	<u>33,207,533</u>
Total liabilities and net assets	<u>\$ 96,651,163</u>	<u>\$ 6,442,977</u>	<u>\$ 602,153</u>	<u>\$ 103,696,293</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

The financial statements of the City of Hopkinsville have been prepared in conformity with United States generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

With respect to proprietary activities, including component units, the City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Hopkinsville is a municipal corporation governed by an elected mayor and a twelve-member council. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The City of Hopkinsville has three discretely presented component units.

Discretely Presented Component Units

The Sewerage and Waterworks Commission (Commission), doing business as Hopkinsville Water Environment Authority, is responsible for sewerage and water service for City residents. The City's governing body appoints the Commission's governing board. The City's governing body also approves the rates for user charges and bond issuance authorizations. The legal liability for the general obligation portion of the Commission's debt remains with the government. The Commission is presented as a proprietary fund type.

Complete financial statements for the individual component unit may be obtained at the entity's administrative office.

Hopkinsville Water Environment Authority
401 East 9th Street
Hopkinsville, Kentucky 42240

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

Discretely Presented Component Units, continued

The Surface and Storm Water Utility (Storm Water), doing business as Hopkinsville Surface and Storm Water Utility, is responsible for minimizing flooding in the City and for establishing minimum requirements and procedures to control the adverse impacts associated with increased surface and storm water runoff for City residents. The City's governing body appoints the Storm Water's governing board. The City's governing body also approves the rates for user charges and bond issuance authorizations. The legal liability for the general obligation portion of the Storm Water's debt remains with the government. The Storm Water is presented as a proprietary fund type.

Complete financial statements for the individual component unit may be obtained at the entity's administrative office.

Hopkinsville Surface and Storm Water Utility
101 N. Main Street
Hopkinsville, Kentucky 42240

The Solid Waste Authority (Solid Waste), doing business as Hopkinsville Solid Waste Authority, is responsible for the management and operation of the solid waste operations in the City. The City's governing body appoints the Solid Waste's governing board. The City's governing body also approves the rates for user charges and bond issuance authorizations. The legal liability for the general obligation portion of the Solid Waste's debt remains with the government. The Solid Waste is presented as a proprietary fund type.

Complete financial statements for the individual component unit may be obtained at the entity's administrative office.

Hopkinsville Solid Waste Authority
5665 Mt. Zoar Road
Hopkinsville, Kentucky 42240

Joint Ventures

The City has joined with other local governments (primarily Christian County) to form organizations for performance of certain activities. Due to dependence on continued funding from the City, these organizations have been classified as joint ventures for financial reporting. Financial statements may be obtained from the City's Financial Director. A list of these joint ventures with the amount of City funding as of June 30 follows:

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

Joint Ventures, continued

<u>City-County Agency</u>	<u>City Funding</u>
Airport Board	\$ 36,100
Planning Commission	296,960
Recreation Commission	125,000
Library Board	160,000
Emergency Operations Communications Center	685,000

The joint ventures above are not accumulating significant financial resources or experiencing fiscal stress that would cause an additional financial benefit to or burden on the City of Hopkinsville in the future.

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contribution that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from general revenues of the City.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

B. Basis of Presentation, continued

Government-Wide Financial Statements, continued

The business-type activities of the City report both operating and non-operating revenues and expenses. Essentially, all revenues and expenses are operating other than interest, purchase and disposal of capital assets, and transfers of funds to and from other governmental units.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The differences between governmental fund assets and liabilities are reported as fund balance. The following are the City's major governmental funds:

General Fund – The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law, ordinance or contractual agreement to some other fund are accounted for in this fund. From this fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid through other funds.

Grants Fund – The Grants Fund is a major fund of the City. This fund was established to account for various local, state, or federal grants unrelated to general or other significant grant funds operations.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

C. Fund Accounting, continued

Governmental Funds, continued

Special Revenue Funds – The Community Development Block Grant Special Revenue Fund was established to account for grants to the City of Hopkinsville, Kentucky, under the provisions of Title I of the Housing and Community Development Act of 1974. Resources may only be used for activities that are directed toward satisfying the primary objective of developing viable urban communities and expanding economic opportunities, principally for persons of low and moderate income. The Municipal Road Aid Special Revenue Fund was established to account for state grants restricted for road improvements. Police and Fire Incentive Fund, UDAG Fund, Drug Enforcement Fund, Expendable Trust Fund, TIF Fund, Inner City REZ, General Liability Insurance Contingency Fund, and Special Projects Fund, were established to account for various local, state or federal grants and other projects unrelated to general fund operations. Certain trust funds whose corpus is expendable are also considered Special Revenue Funds.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources.

Capital Projects Fund – Established to account for acquisition of fixed assets or construction of major capital projects.

Permanent Fund – These funds were created by virtue of bequests from certain individuals, with specific requirements regarding the principal and income.

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds

Tie Breaker Family Aquatic Fund – The Family Aquatic Fund was established for the purpose of managing and accounting for the water park operations in the City.

Grounds Maintenance Fund – The Grounds Maintenance Fund was established to account for activities in the City's public cemeteries and parks. An ordinance dated August 18, 1959, placed public cemeteries under the supervision of the Department of Public Works. Due to the similarity of operations, grounds maintenance was added to the fund.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

C. Fund Accounting, continued

Proprietary Funds, continued

Internal Service Funds

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City on a user charge basis.

Health Insurance Fund – This fund was established to serve all other funds as a self-insurance employees' medical/health care plan.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City for individuals, private organizations or other governments, and are therefore not available to support the City's own programs. The City has one fiduciary fund, the Police and Firemen Pension Fund (a contributory defined benefit plan), created by ordinance under Kentucky Revised Statutes (KRS) Sections 98.851 to 95.885. It covers former employees of the City of Hopkinsville police and fire departments who did not elect coverage through the state's County Employees Retirement System.

D. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus although internal activity is not eliminated in these statements. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Continued

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

D. Measurement Focus, continued

Fund Financial Statements, continued

This approach differs from the manner in which governmental-wide statements are presented; therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The Statement of Cash Flows provides information about how the City finances and meets the cash flows needs of its proprietary activities.

The pension trust funds and the investment trust fund are reported using the economic resources measurement focus.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

For all proprietary fund types, it is required that the statement of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are revenues generated or expenses incurred from providing goods and services. Nonoperating revenues are those not derived from the basic operations of a business. Nonoperating expenses are expenses incurred in the performance of activities not directly related to supplying the basic service of the entity.

Revenues – Exchange and Non-Exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

E. Basis of Accounting, continued

Revenues – Exchange and Non-Exchange Transactions, continued

Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, franchise taxes, occupational licenses, grants, entitlements and donations. The City considers property taxes as available if they are collected within sixty days after year-end. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The following is a list of primary revenue sources which have been treated as susceptible to accrual under the modified accrual basis, and which have not:

<u>Susceptible</u>	<u>Not Susceptible</u>
Taxes Intergovernmental	Licenses and permits

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

F. Deposits and Investments

Cash balances of the City's funds are pooled and invested. Interest earned from investments purchased with pooled cash is allocated to the various funds based on the fund's average cash balance. Funds with negative cash balances are not charged interest.

Investments are reported at fair value in all funds. Fair values are obtained from market quotations on the last business day of the year.

Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposits, savings and loan deposits and the Commonwealth of Kentucky investment pool.

As security for deposits of the City, banks doing business with the City are required to pledge securities in an amount to exceed uninsured funds on deposit by the City.

For presentation on the financial statements, investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

G. Inventory

Inventory is valued at cost, which approximates market value, using the weighted-average method.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid expenses.

I. Restricted Assets

Certain proceeds of revenue bonds of the Hopkinsville Water Environment Authority (component unit), as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "Bond and Interest Redemption" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "Depreciation" and "Equipment Replacement" accounts are used to report resources set aside for unusual or extraordinary maintenance, repairs, renewals and/or replacements or extensions, additions and/or improvements. The "Construction" account is used to report bond proceeds restricted for use in the cost of future expansion and rehabilitation. The "Unemployment" account is used to accumulate funds to provide for possible claims.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

I. Restricted Assets, continued

The component of restricted assets for Solid Waste consists of constraints placed on net assets through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted assets for Solid Waste currently consist of funds placed in trust in order to comply with state laws for funding landfill closure and postclosure costs.

J. Capital Assets

General capital assets are long-lived assets of the City as a whole. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of pavements, storm sewers, water lines, and sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is capitalized for business-type activities; however, interest is not capitalized in connection with the construction of capital assets used in governmental activities. Upon implementation of GASB 34, the infrastructure previously acquired was included in the cost and accumulated depreciation was calculated based on useful lives remaining.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Buildings and Improvements	40 Years
Equipment	5-7 Years
Vehicles	5-7 Years
Infrastructure	20-99 Years

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due To/Due From Other Funds". These amounts are eliminated in the governmental activities column of the statement of net assets.

L. Compensated Absences

The City accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at June 30, 2008.

The entire compensated absence liability is reported on the government-wide financial statement.

For governmental funds, the liability is not reported, as it is not practicable to estimate a current amount. The proprietary funds report the liability as it is incurred.

M. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources are reported as obligations of the fund. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

N. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances, prepaids and inventories are recorded as a reservation of fund balance.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

N. Fund Balance Reserves, continued

A net asset deficit of \$7,180,834 exists for the Solid Waste. The deficit is caused primarily due to the accrual of landfill closure costs that are expected to be funded in future years. The Solid Waste expects results from future operations to fund such costs.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

R. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

2. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments (including restricted assets) with a maturity of three months or less from the date of acquisition.

A. Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires banks doing business with the City to pledge securities in an amount to exceed uninsured funds on deposit by the City. At year-end, the carrying amount of the City's deposits was \$5,521,175 and the bank balance was \$6,143,435. Of the cash balance, \$200,000 was covered by federal depository insurance. The remaining balance was covered by collateral held by financial institutions' agents in the City's name. Therefore, as of June 30, 2008, the City did not have any deposited funds exposed to custodial credit risk.

At year-end, the carrying amount of the deposits for the Sewerage and Waterworks Commission, discretely presented component unit, was \$2,173,574 and the bank balance was \$2,121,241. Of this bank balance, Federal Depository Insurance covered \$200,000, with the balance covered by collateral held by the pledging bank. State law requires all funds to be fully insured or collateralized.

At year-end, the carrying amount of the Solid Waste's deposits was \$1,491,569 and the bank balance was \$1,541,073. Of the cash balance, \$100,000 was covered by federal depository insurance. The remaining balance was covered by collateral held by financial institution's agents in the Solid Waste's name. Therefore, as of June 30, 2008, the Solid Waste did not have any deposited funds exposed to custodial credit risk.

At year-end, the carrying amount of the Storm Water's deposits was \$525,581 and the bank balance was \$547,995. Of the bank balance, \$100,000 was covered by Federal Depository Insurance, and \$447,995 was collateralized and insured. Therefore, as of June 30, 2008, the Storm Water did not have any deposited funds exposed to custodial credit risk.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

2. Deposits and Investments, continued

B. Investments

The investments for City of Hopkinsville consisted of the following:

<u>Investments as of June 30, 2008</u>	<u>Average Credit Quality/Rating</u>	<u>Fair Value (Primary Gov't)</u>	<u>Fair Value (Pension Trust Fund)</u>	<u>Average Maturity</u>
BB&T US Treasury Money Market Fund	Aaa	\$ 654,888	\$ -	34 Days
BB&T Prime Money Market Fund	A1-P1	252,824	35,400	46 Days
BB&T Intermediate US Gov't Fund	AAA	233,068	-	4.76 Years
BB&T Short US Gov't Fund	AAA	37,710	-	2.70 Years
BB&T Total Return Bond Fund	AA	156,504	491,497	7.79 Years
Dodge & Cox Income Fund	AA	36,109	-	6.33 Years
Federated Total Return Gov't Fund	AAA	31,434	-	7.28 Years
Legg Mason Western Asset Non-US Opp Bond	AAA	-	122,008	8.80 Years
Federated US Gov't Securities Fund	AAA	7,909	-	3.65 Years
Repurchase Agreement	n/a	1,000,000	-	n/a
FNMA Fixed Rate Note 12/18/2014	n/a	<u>1,279</u>	<u>-</u>	6.47 years
Total		<u>\$ 2,411,725</u>	<u>\$ 648,905</u>	

The investments for Solid Waste consisted of the following:

<u>Investments as of June 30, 2008</u>	<u>Average Credit Quality/Rating</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Average Maturity</u>
Repurchase Agreement	n/a	\$ 2,050,000	\$ 2,050,000	n/a
First American Government Obligation Fund	AAA	<u>428,331</u>	<u>428,331</u>	40 days
Total		<u>\$ 2,478,331</u>	<u>\$ 2,478,331</u>	

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial 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, 2008, none of the City's investments were subject to custodial credit risk.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

2. Deposits and Investments, continued

B. Investments, continued

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City has no investment policy that limits its investment choices other than the limitations of Kentucky Revised Statute 66.480 that permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates, savings and loan deposits, and the Commonwealth of Kentucky investment pool.

Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer. The City's only investments are in mutual funds. Investments in mutual funds are specifically excluded from this type of risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The City does not have investments in foreign currency, and is, therefore, not exposed to such risk.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

2. Deposits and Investments, continued

C. Restricted Assets

The balances of the Commission's restricted asset accounts are as follows:

Bond and interest redemption	\$ 484,709
Depreciation	300,000
Equipment replacement	773,455
Construction	1,242,764
Unemployment	<u>23,486</u>
Total restricted assets	<u>\$ 2,824,414</u>

The balance of the Solid Waste's restricted asset account is:

Landfill closure costs	<u>\$ 2,478,331</u>
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3. Property Taxes

Property taxes attach as an enforceable lien on property and are levied as of July 1 each year. These taxes are not accrued at June 30 of each year since they are not measurable at that time. The tax rate and assessed valuation are not known until September of the year. Collection and due dates occur October through December.

The City is permitted by Section 157 of the Constitution of Kentucky to levy taxes up to \$1.50 per \$100 of assessed valuation for general governmental services other than school purposes. The tax rate to finance general governmental services other than school purposes for the year ended June 30, 2008, was \$.244 real and \$.251 personal per \$100, which means that the City has a tax margin of approximately \$1.256 for real and \$1.249 for personal per \$100. The City is subject to an absolute maximum tax rate in that House Bill 44 prohibits levying a tax rate that will produce more revenue, exclusive of revenue from net assessment growth, than would be produced by application of the tax rate that was levied in the preceding year to the preceding year's assessment. The effect of this legislation has been to limit increases in property tax revenues to minimal levels.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

4. Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,755,621	\$ -	\$ -	\$ 1,755,621
Construction in Progress	153,886	1,011,643	153,886	1,011,643
Capital Assets Being Depreciated:				
Buildings & Improvements	5,542,264	440,185	-	5,982,449
Equipment	5,523,702	499,891	-	6,023,593
Infrastructure	14,168,773	632,323	-	14,801,096
Land Improvements	3,419,041	123,510	-	3,542,551
Vehicles	1,735,301	110,250	-	1,845,551
Less Accumulated Depreciation:				
Buildings & Improvements	2,098,977	168,997	-	2,267,974
Equipment	2,861,099	412,635	-	3,273,734
Infrastructure	6,892,583	570,146	-	7,462,729
Land Improvements	721,363	193,411	-	914,774
Vehicles	<u>1,130,885</u>	<u>277,728</u>	<u>-</u>	<u>1,408,613</u>
Total	<u>\$ 18,593,681</u>	<u>\$ 1,194,885</u>	<u>\$ 153,886</u>	<u>\$ 19,634,680</u>

Deletions represent a disposition of surplus assets sold or no longer in use.

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 207,646
Public Safety	384,056
Public Works	860,015
Community Development	154,608
Parks and Recreation	<u>16,592</u>
Total Depreciation Expense	<u>\$ 1,622,917</u>

Continued

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

4. Capital Assets, continued

A summary of City enterprise funds property, plant and equipment at June 30, 2008, is as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 2008</u>
<u>Enterprise Fund Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 260,159	\$ -	\$ -	\$ 260,159
Capital Assets Being Depreciated:				
Buildings and improvements	3,951,625	6,312	-	3,957,937
Equipment	288,445	186,319	-	474,764
Vehicles	66,853	-	-	66,853
Less Accumulated Depreciation:				
Buildings and improvements	127,098	101,088	-	228,186
Equipment	79,455	43,147	-	122,602
Vehicles	<u>52,930</u>	<u>3,481</u>	<u>-</u>	<u>56,411</u>
Total	<u>\$ 4,307,599</u>	<u>\$ 44,915</u>	<u>\$ -</u>	<u>\$ 4,352,514</u>

Depreciation expense (including amortization of capitalized assets) of the enterprise funds for the year ended June 30, 2008, was \$147,716.

A summary of Commission enterprise fund property, plant and equipment at June 30, 2008, is as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 2008</u>
<u>Enterprise Fund Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 881,734	\$ -	\$ -	\$ 881,734
Construction in progress	27,665,613	4,460,905	387,420	31,739,098
Capital Assets Being Depreciated:				
Structures and Improvements	85,757,333	8,833,889	-	94,591,222
Equipment	9,525,115	125,832	-	9,650,947
Vehicles	647,697	73,979	-	721,676
Less Accumulated Depreciation:				
Structures and Improvements	38,164,376	2,073,952	-	40,238,328
Equipment	5,916,234	422,956	-	6,339,190
Vehicles	<u>567,850</u>	<u>35,601</u>	<u>-</u>	<u>603,451</u>
Total	<u>\$ 79,829,032</u>	<u>\$ 10,962,096</u>	<u>\$ 387,420</u>	<u>\$ 90,403,708</u>

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

4. Capital Assets, continued

Depreciation expense for the Commission for the year ended June 30, 2008, was \$2,532,508.

A summary of Solid Waste enterprise fund property, plant and equipment at June 30, 2008, is as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
<u>Enterprise Fund Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 615,582	\$ -	\$ -	\$ 615,582
Construction in Progress	-	51,520	-	51,520
Capital Assets Being Depreciated:				
Buildings	66,049	118,556	-	184,605
Equipment	5,090,211	107,865	765,080	4,432,997
Land Improvements	580,503	-	-	580,503
Less Accumulated Depreciation:				
Buildings and Improvements	21,868	3,467	-	25,335
Equipment	3,904,222	297,473	765,080	3,436,615
Land Improvements	<u>529,422</u>	<u>5,909</u>	<u>-</u>	<u>535,331</u>
Total	<u>\$ 1,896,834</u>	<u>\$ (28,908)</u>	<u>\$ -</u>	<u>\$ 1,867,926</u>

Depreciation expense for Solid Waste for the year ended June 30, 2008, was \$306,849.

5. Post-Retirement Benefits

Earned but unused vacation hours are converted to terminal pay at retirement. Prior to April 1, 2002, accumulated sick leave could be taken as terminal pay at the rate of four sick days per one day's wages. Effective April 1, 2002, the City Council authorized adoption of the Order of Participation with the Kentucky Retirement System, which established the Standard Unused Sick Leave Program. This Program provides a retirement allowance based on accumulated sick leave. The amount that may be converted to retirement hours is based on a mathematical calculation with a factor that considers the retiree's wage, age, and years of service. As it is not practical to estimate the cost of converting sick hours to retirement credit, management chooses to report accumulated sick time as a liability based on converting four sick days to one day of terminal pay at retirement.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. Employee Retirement Systems

The government maintains a single-employer, defined benefit pension plan (Police and Firemen Pension Fund) which covers certain retired public safety employees, and participates in the statewide local government retirement system which covers substantially all of the government's general employees and current public safety employees by their election.

(a) County Employees' Retirement System

Plan Description. The City contributes to the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

Funding policy. Nonhazardous position plan members are required to contribute 5% of their annual creditable compensation while hazardous position plan members are required to contribute 8%. The City is required to contribute at an actuarially determined rate. The current rate is 16.17% of annual covered payroll for nonhazardous and 33.87% for hazardous position members. The contribution requirements of plan members and the City are established and may be amended by KRS Board of Trustees. The City's contribution to CERS for the three years ended June 30, 2008, 2007, and 2006, was \$2,589,952, \$2,212,033, and \$1,993,554, respectively, equal to the required contribution for these years. The Commission's contribution to CERS for the three years ended June 30, 2008, 2007, and 2006, was \$400,261, \$316,358, and \$264,839 respectively, is equal to the required contribution for these years. The Solid Waste's contributions to CERS for the two years ended June 30, 2008 and 2007, was \$234,574 and \$191,729, equal to the required contribution for these years.

(b) Police and Firemen Pension Fund

During the year ended June 30, 1989, active public safety employees were provided the option to convert to coverage under the county employees retirement system (CERS). Approximately 98 employees elected to convert from the Police and Firemen Pension Fund coverage.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. Employee Retirement Systems, continued

Plan Description. The City's Policemen's and Firefighter's Pension Fund is a single-employer, defined benefit pension plan administered by the Board of Trustees of the Pension Fund. The City's Policemen's and Firefighter's Pension Fund has no active participants and 36 inactive retirees and beneficiaries receiving benefits. No new participants can be enrolled. No terminated employees entitled to deferred benefits exist. The authority to establish and amend benefit provisions has been assigned to the Council of the City of Hopkinsville. All new policemen and firefighters eligible for retirement benefits are participants in the County Employees' Retirement System.

This pension plan does not issue stand-alone financial reports. The investments of this fund is administered and managed by trust officers at the custodial bank, with administration costs paid from the fund. The plan is accounted for as a fiduciary fund in the City's financial statements.

Due to the consistency of the fund's activity each year, an actuarial valuation is not performed biennially as required by GASB, but is prepared every three years per state law requirements. Accordingly, the most recent report is dated April 21, 2006. This report stipulates that the actuarial valuation summarized has been performed utilizing generally accepted accounting principles.

Asset Valuation Method. Assets are valued using the mean of book and market values.

Description of Actuarial Funding Method. The employer contribution is determined under an aggregate variation of the Entry Age Normal Funding Method, with the contribution calculated in two pieces. The first piece is the "normal cost", and would usually be evaluated in terms of the normal cost accrual rate. This portion of the contribution is no longer applicable. The second piece of the total employer contribution is an amount that is intended to amortize the "unfunded supplemental liability". The unfunded supplemental liability is sometimes referred to as the "unfunded past service liability". The amortization period is considered closed. Since only retirees and beneficiaries remain covered by the Fund, the supplemental liability is simply the present value of future expected benefit payments. The unfunded supplemental liability is the amount by which current assets fall short of this expected liability.

Funding Policy. Plan benefits are being funded by contributions authorized by the City legislative body, commonly referred to as employer contributions. Since the plan covers a closed group of participants, the City is essentially funding the plan on a pay-as-you-go basis to avoid a large build-up of assets. Therefore, the City's contribution policy has been to contribute amounts approximately equal to the total benefits payable to retirees and beneficiaries over the next fiscal year plus the administrative costs charged by the trustee for plan administration.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. Employee Retirement Systems, continued

Based on the January 1, 2006, actuarial valuation of the Fund, a suggested employer contribution to be applied to the fiscal year beginning July 1, 2006, has been determined. The interest rate used to determine the present value of future benefit payments is currently 6%, selected to recognize current and expected market conditions. Assuming a 3.25% COLA, the amortization period selected by the actuary is 2015 (9 years from 2006), which is the remaining life expectancy of the current beneficiaries. The normal cost is \$0, as there are no actively employed participants in the Fund.

Annual Pension Cost and Net Pension Obligation. The City's annual pension cost and net pension obligation to the Police and Firemen Pension Fund for the current year were as follows:

Annual required contribution	\$ 500,406
Interest on net pension obligation	85,947
Adjustment to annual required contribution	<u>(212,671)</u>
Annual pension cost	373,682
Contributions made	<u>(397,522)</u>
Decrease in net pension obligation	(23,840)
Net pension obligation beginning of year	<u>1,432,454</u>
 Net pension obligation end of year	 <u>\$1,408,614</u>

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/06	379,892	116%	1,475,079
6/30/07	369,912	112%	1,432,454
6/30/08	373,682	106%	1,408,614

The actuarial assumptions include a 6.00% investment rate of return, no salary increases, no post retirement benefit increases, and no inflation.

7. Interfund Receivables and Payables

Interfund balances at June 30, 2008, consists of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 87,239	
Grants Fund		\$ 87,239

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

7. Interfund Receivables and Payables, continued

The interfund balance results from the funding of temporary cash flow deficits of other nonmajor funds from the general fund.

8. Construction Commitment

At June 30, 2008, the City of Hopkinsville had two material contracts pending, the renovation of the North Drive Complex and the renovation of the Old First City Bank Building. The total expenditures for the renovation of the North Drive Complex contract at the end of the year were \$86,400 with \$717,707 remaining for the contract. The total expenditures for the renovation of the Old First City Bank Building contract at the end of the year were \$925,243 with \$319,472 remaining for the contract.

9. Short-Term Debt

The City of Hopkinsville issued no short-term debt during the year ended June 30, 2008.

10. Long-Term Obligations

During the year ended June 30, 2008, the following changes occurred in long-term liabilities:

	<u>Principal Outstanding July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2008</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Compensated absences	\$ 1,195,760	\$ -	\$ 214,177	\$ 981,583	\$ 147,238*
Net Pension Obligation	1,432,454	-	23,840	1,408,614	-
General Obligation Bond	7,071,229	-	535,521	6,535,708	549,013
Revenue Bond	-	1,300,000	-	1,300,000	10,634
Notes Payable	<u>1,364,481</u>	<u>-</u>	<u>100,032</u>	<u>1,264,449</u>	<u>102,898</u>
Total Governmental Activities	<u>\$ 11,063,924</u>	<u>\$ 1,300,000</u>	<u>\$ 873,570</u>	<u>\$ 11,490,354</u>	<u>\$ 809,783</u>
<u>Business Type Activities-City:</u>					
Compensated Absences	<u>\$ 35,122</u>	<u>\$ 10,890</u>	<u>\$ -</u>	<u>\$ 46,012</u>	<u>\$ 6,902*</u>

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

10. Long-Term Obligations, continued

	<u>Principal Outstanding July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2008</u>	<u>Due Within One Year</u>
Business Type					
<u>Activities-Commission:</u>					
Revenue Bonds	\$ 27,793,117	\$ 855,000	\$ 1,993,117	\$ 26,655,000	\$ 1,145,000
Notes Payable	21,154,125	7,842,269	1,159,767	27,836,627	2,085,353
Capital Leases	<u>-</u>	<u>44,870</u>	<u>7,496</u>	<u>37,374</u>	<u>8,970</u>
Total Business Type Activities- Commission	<u>\$ 48,947,242</u>	<u>\$ 8,742,139</u>	<u>\$ 3,160,380</u>	<u>\$ 54,529,001</u>	<u>\$ 3,239,323</u>
Business Type					
<u>Activities-Solid Waste:</u>					
Compensated Absences	\$ 149,375	\$ 11,833	\$ 2,502	\$ 158,706	\$ 23,806*
Capital Leases	360,638	-	114,510	246,128	120,121
Accrued Landfill Closing Costs	<u>13,906,268</u>	<u>-</u>	<u>881,572</u>	<u>13,024,696</u>	<u>-</u>
Total Business Type Activities- Solid Waste	<u>\$ 14,416,281</u>	<u>\$ 11,833</u>	<u>\$ 998,584</u>	<u>\$ 13,429,530</u>	<u>\$ 143,927</u>
Total Business Type Activities- Component Units	<u>\$ 63,363,523</u>	<u>\$ 8,753,972</u>	<u>\$ 4,158,964</u>	<u>\$ 67,958,531</u>	<u>\$ 3,383,250</u>

*The amount projected as due within one year for compensated absences is an estimate; the variables that determine these amounts cannot be absolutely determined, and are out of the control of the City's management.

Revenue bonds are direct obligations and pledge the income derived from the acquired assets and other sources to pay debt service. Revenue bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2008</u>
Kentucky League of Cities Funding Revenue, 2006 Series A - \$1,300,000	12/01/2035	Variable	\$ 1,300,000
 <u>Business Type Activities-Commission:</u>			
Water Sewer Facilities-1998-\$855,000	10/01/2021	3.75% to 4.90%	855,000
Water Sewer Facilities-2005A-\$25,635,000	10/01/2026	3.375% to 4.00%	24,535,000
Water Sewer Facilities-2005B-\$1,545,000	10/01/2017	3.00% to 3.75%	<u>1,265,000</u>
		Total	<u>\$ 26,655,000</u>

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

10. Long-Term Obligations, continued

Annual debt service requirements projected to maturity for revenue bonds are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Interest</u>	<u>Business Type Activities Commission</u>	<u>Interest</u>
2009	\$ 10,634	\$ 71,409	\$ 1,145,000	\$ 999,292
2010	25,890	49,235	1,190,000	970,226
2011	27,086	48,237	1,227,500	929,435
2012	28,232	47,281	1,270,000	886,576
2013	29,705	46,058	1,317,500	840,587
2014-2018	169,825	212,527	7,242,500	3,402,513
2019-2023	212,591	176,888	7,882,500	1,886,232
2024-2028	266,073	132,320	5,380,000	328,600
2029-2033	333,156	76,419	-	-
2034-2036	<u>196,808</u>	<u>13,018</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,300,000</u>	<u>\$873,392</u>	<u>\$26,655,000</u>	<u>\$10,243,461</u>

General obligation bonds were issued in 2003 for the purpose of refunding a floating indebtedness obligation incurred by the City for an unfunded pension liability. General obligation bonds were issued in 2006 for the purpose of funding certain project improvements. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2008</u>
Kentucky League of Cities Funding GO, 2003 Series A - \$538,000	08/01/2008	2%-2.7%	\$ 191,000
Kentucky League of Cities Funding GO, 2003 Series B - \$1,034,000	08/01/2017	4%-5.3%	809,000
Kentucky League of Cities Funding 2004 Series A - \$1,250,000	03/01/2016	3%-3.75%	1,002,316
Kentucky League of Cities Fund 2004 Series A - \$4,910,000	04/01/2026	3.5%-3.75%	4,533,392

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

10. Long-Term Obligations, continued

Both the City and the Commission have issued notes payable, primarily for the purpose of funding various construction projects and financing a CERS liability. The outstanding debt related to notes payable at June 30, 2008, was:

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2008</u>
Kentucky League of Cities			
Pooled Lease Financing - \$1,975,000	2019	3.27%	\$ 1,264,449
 <u>Business Type Activities-Commission:</u>			
KIA Fund A Wastewater - \$9,190,530	2016	1.2%	3,921,494
KIA Fund B Water Plant - \$5,000,000	2026	1.9%	3,331,834
KIA Fund A Phase II - \$3,167,272	2018	1.8%	1,738,402
KIA Fund A Wastewater - \$240,264	2017	1.2%	115,253
KIA Fund A - \$614,521	2020	0.4%	379,135
KIA Fund A Phase III - \$834,891	2021	3.8%	592,388
KIA Fund A Phase IV - \$4,583,635	2026	1.0%	4,167,160
KIA Fund C Wastewater	2018	4.00 to 4.25%	525,000
KIA Fund F Drinking Water	undetermined	1.0%	1,513,593
KIA Fund A Phase V	undetermined	1.0%	2,364,136
KIA Fund F Water	undetermined	3.0%	3,887,432
KY Rural Finance	2025	3.125 to 4.50%	512,500
KY Rural Finance	2029	2.28 to 4.405%	1,637,500
Due to Oak Grove	2012	n/a	2,981,242
Capital lease obligation	2012	5.00%	37,374
City of Hopkinsville - \$120,000	undetermined	n/a	113,342
City of Crofton - \$484,010	2009	5.00%	56,216

Additionally, the Commission has open KIA loans for which draws are being taken against construction projects. At June 30, 2008, the maturity and repayment schedule is not determined, as the loans are not closed.

Annual debt service requirements to maturity for notes payable and general obligation bonds are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities Principal</u>	<u>Interest</u>	<u>Enterprise Fund Commission Principal</u>	<u>Interest</u>
2009	\$ 651,911	\$ 296,811	\$ 2,085,353	\$ 318,592
2010	478,038	275,854	2,051,502	296,381
2011	498,010	256,320	2,070,128	276,090
2012	518,215	236,309	1,922,685	255,171
2013	536,766	214,589	1,324,171	232,837
2014-2018	2,670,262	738,533	5,593,396	824,800
2019-2023	1,510,299	328,221	3,025,706	403,747
2024-2026	936,656	58,435	9,706,686	113,833
2029	-	-	57,000	2,511

Continued

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

10. Long-Term Obligations, continued

During June 2008, the Commission acquired the sewerage system of the City of Oak Grove, Kentucky for a purchase price of \$6,986,762. As part of the payment of the purchase price, the Commission agreed to assume the debt relating to the City of Oak Grove sewerage system. The total debt assumed from the City of Oak Grove totaled \$3,530,000. The remainder of the purchase price was to be paid by the Commission in the following manner: a payment of \$475,520 within thirty days of the execution of the contract and the remaining balance to be paid in annual installments over the next four years.

Defeased Bonds Outstanding

In prior years, the City and the Commission issued refunding bonds to defease certain outstanding bonds, for the purpose of consolidation and to achieve debt service savings. The City and the Commission have placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to insure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On June 30, 2008, \$1,220,000 bonds outstanding for the City are considered defeased. On June 30, 2008, the amount of bonds outstanding for the Commission considered defeased is undeterminable.

During 2005, the Commission issued \$1,545,000 of Water Sewer Facilities for refunding a 1996 series. The reacquisition price exceeded the net carrying amount of the refunded debt by \$141,678. This amount is being amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$167,232 and resulted in an economic gain of \$133,683.

11. Capital Leases

The City did not have any capital leases at year-end.

In June 2007, the Commission entered into a capital lease agreement for a Panasonic phone system. The lease agreement is for a period of five years expiring on August 30, 2012, with a \$1 buyout option at the end of the lease period.

The assets acquired through this capital lease were as follows at June 30, 2008:

	<u>2008</u>
Equipment	\$ 44,949
Less accumulated depreciation	(3,371)
Total	<u>\$ 41,578</u>

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

11. Capital Leases, continued

The future minimum lease obligations as of June 30, 2008, were as follows:

2009	\$ 8,970
2010	8,970
2011	8,970
2012	8,970
2013	<u>1,494</u>
	<u>\$ 37,374</u>

In February, 2007, the Solid Waste leased four vehicles. The vehicles are leased at \$132,181 per year for a term of three years at an imputed interest rate of 4.9%. The first payment is due February 9, 2008. The lease expires on February 9, 2010.

The assets acquired through this capital lease were as follows at June 30, 2008:

	<u>2008</u>
Vehicles	\$ 360,638
Less accumulated depreciation	<u>(102,181)</u>
Total	<u>\$ 258,457</u>

The future minimum lease obligations as of June 30, 2008, were as follows:

<u>Year Ending June 30</u>	<u>Total Lease Payments</u>	<u>Less Imputed Interest</u>	<u>Present Value of Minimum Lease Payments</u>
2009	\$ 132,181	\$ 12,060	\$ 120,121
2010	<u>132,181</u>	<u>6,174</u>	<u>126,007</u>
	<u>\$ 264,362</u>	<u>\$ 18,234</u>	<u>\$ 246,128</u>

The Storm Water Utility leases the watershed lakes known as Lake Tandy, Lake Morris, and Lake Boxley located in Christian County, Kentucky by the Hopkinsville Water Environment Authority. This lease is for the Utility to use the watershed lakes for flood control and water storage activities. The term of this lease is for a period of twenty (20) years beginning January 1, 2008, and ending December 31, 2027. The lessee or lessor may terminate the lease at any time during the lease period with a one (1) year written notice as to its intent to terminate the lease. The lease shall be automatically extended by a twenty (20) year period if no notice is given within the one (1) year time period provided. The Utility will pay the sum of \$1 per year to HWEA and further maintain property in the manner stated in the lease. The Utility will provide insurance for coverage of activities on the premises. Also, the Utility must honor existing lease agreements running with the premises.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

12. Interfund Transfers

Transfers are used to (1) move revenues from the fund required by statute or budget to collect them to the fund required by statute or budget to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers for the year ended June 30, 2008, consisted of the following:

	Transfer From:					Total
	General Fund	Grants Fund	Grounds Maintenance Fund	Nonmajor Business-Type	Nonmajor Governmental Fund	
Grants Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General Fund	-	4,721	-	-	149,000	153,721
Tie Breaker Family Fund	125,000	-	-	-	192,631	317,631
Grounds Maintenance Fund	441,000	-	-	-	-	441,000
Nonmajor Business-Type	-	-	-	-	-	-
Nonmajor Governmental Type	<u>883,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>883,116</u>
Total	<u>\$1,449,116</u>	<u>\$ 4,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 341,631</u>	<u>\$ 1,795,468</u>

Non-cash transfers (equipment purchased) consisted of the following:

Transfers from Nonmajor Governmental Fund to:	<u>Noncash</u>
General Fund	\$ 149,000
Tie Breaker Family Fund	192,631
Total non-cash transfers	<u>\$ 341,631</u>

13. Interfund Balances

The fund financial statements reflect receivables and payables resulting from short-term interfund loans. A schedule of these interfund payables and receivables follows:

	<u>Due from Grants Fund</u>	<u>Due from General Fund</u>
General Fund	\$ 87,239	
Grants Fund		\$ 87,239

These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

14. Claims and Judgments

Various legal actions and proceedings and claims are pending or may be instituted or asserted against the City in the future, including those arising out of automobile accidents; employment-related matters; law enforcement and other.

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. No accruals have been established for the matters discussed in the foregoing paragraph because the amount of possible loss or range of loss cannot be reasonably estimated.

15. Community Development Loan Funds

The community development loan funds within the Special Revenue Funds result from federal grants to the Community Development Fund, which can only be used to provide funding for community improvement loan programs. These monies are refundable (repayable) to the granting Federal agency to the extent that they are not used or the program is terminated.

16. Contingencies

Under the terms of other federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement of the grant monies to the granting agencies. City management believes that disallowances, if any, will be immaterial.

17. Risk Management

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. Claims liabilities are based on estimates of the ultimate cost of reported claims and an estimate for claims incurred but not reported based on historical experience.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

17. Risk Management, continued

The Health Insurance Fund was established to account for the City's employee health care coverage program that is self-insured by the City. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At June 30, 2008, the claims liability was \$47,244. Changes in the claims liability during the last two years are as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Fiscal Year</u>
2006-2007	\$ 103,777	\$1,194,615	\$1,257,365	\$ 41,027
2007-2008	41,027	1,084,915	1,078,698	47,244

18. Closure and Postclosure Care Costs

State and federal laws and regulations require the City's Solid Waste Authority to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for up to thirty years after closure. The City closed its regular landfill on July 1, 1995. The City, and subsequently, the Solid Waste Authority have operated a separate landfill section as a construction demolition debris (CDD) landfill since June 30, 1995. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Solid Waste Authority reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The \$13,024,696 reported as Solid Waste landfill closure and postclosure care liability at June 30, 2008, represents the cumulative amount reported to date based on the use of approximately 90 percent of the capacity of the landfill. These amounts are based on what it would cost to perform all closure and postclosure care in 2008 as estimated by the consulting engineer. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

This total amount of closure and postclosure costs are estimated to be \$14,251,439, leaving \$1,226,743 remaining to be recognized. The remaining life of the current landfill is estimated to be four to five years. An application is in process to permit expansion of the landfill's capacity. Approval of such permit may result in a significant change in the liability estimate for closure and postclosure costs.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

18. Closure and Postclosure Care Costs, continued

The City of Hopkinsville and the Solid Waste Authority are required by state and federal laws and regulations to provide assurances that financial resources will be available to provide for landfill closure and postclosure care. The Solid Waste Authority is in compliance with these requirements, as determined by the Kentucky Natural Resources and Environment Protection Cabinet, by entering into a trust agreement that calls for scheduled future annual funding contributions to the trust. At June 30, 2007, \$2,478,331 are held for such purposes and reported as restricted assets on the balance sheet. The Solid Waste expects future inflation costs will be paid from these funds combined with the scheduled future funding and related investment income. However, if earnings are inadequate or additional postclosure care requirements are determined due to changes in technology, laws, regulations, or other, additional funding would be required.

19. Related Party Transactions

The following are related party transactions by the City with its three discretely presented component units: Hopkinsville Water Environment Authority, Hopkinsville Solid Waste Authority, and Hopkinsville Surface and Storm Water Utility, which are not disclosed elsewhere in the notes to the statements.

The City has collected from Hopkinsville Water Environment Authority a capital credit in the amount of \$216,510 for the fiscal year ended June 30, 2008.

The Solid Waste Authority paid Hopkinsville Water Environment Authority \$58,193 for providing customer billing and collection services and \$210,021 for leachate purification services for the year ended June 30, 2008. The City assesses a percentage of Solid Waste Authority revenue as payment in lieu of taxes. The Solid Waste Authority paid the City \$140,290 for payment in lieu of taxes for the year ended June 30, 2008.

The Storm Water Utility has contracted services with the City for labor on certain projects to be done by the Public Works Department and for bookkeeping services to be done by the Finance Department. These contracts require Storm Water to pay the City \$18,425 each month for work done by Public Works and \$850 each month for work done by the Finance Department. For the year ended June 30, 2008, the total amount paid to Public Works and the Finance Department was \$110,550 and \$10,200 respectively. The Storm Water Utility also reimburses the City for materials and other expenses allocable to the Storm Water Utility. For the year ended June 30, 2008, the total amount reimbursed to the City for such work was \$28,257. The Storm Water Utility has contracted services with the Hopkinsville-Christian County Planning Commission for administration services and code enforcement for \$13,333 each month. For the year ended June 30, 2008, the total amount paid to the Planning Commission was \$159,996.

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

19. Related Party Transactions, continued

The Hopkinsville Water Environment Authority provides utility billing and cash collection services for the Storm Water Utility. The Authority charges the Storm Water Utility for these services. For the year ended June 30, 2008, the amount paid to the Authority during the year for billing and collection services totaled \$52,629.

The Storm Water Utility has notes payable with the City for the purpose of funding operating expenses. The Storm Water Utility has a short-term liability of \$95,000 from the City's UDAG Revolving Loan Fund for pre-funding of operating expenses for the Storm Water Utility, which is due immediately upon receipt of bond proceeds. The interest rate on this loan is 2%. The Storm Water Utility also has a short-term liability of \$100,000 from the City for operating expenses. The City has authorized the Storm Water Utility to borrow up to \$250,000 under this loan agreement. Repayment of this liability is to be made through revenues collected by the Storm Water Utility or bond proceeds. The interest rate on this loan is 1%.

During the year ended June 30, 2008, the following changes occurred in short-term liabilities:

	Principal Outstanding <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>June 30, 2008</u>
UDAG Revolving Loan	\$ 95,000	\$ -	\$ -	\$ 95,000
City of Hopkinsville Loan	<u>150,000</u>	<u>-</u>	<u>50,000</u>	<u>100,000</u>
Total	<u>\$ 245,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 195,000</u>

Total interest expense for 2008 was \$3,373, of which all was expensed.

During the year ended June 30, 2008, the Storm Water Utility reimbursed the City for the purchase of land located in Hopkinsville, Kentucky. The amount reimbursed to the City for this land was \$140,000. This land was purchased for storm water purposes.

**CITY OF HOPKINSVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
POLICE AND FIREMEN DEFINED BENEFIT PENSION TRUST
June 30, 2008**

1. SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
1/1/2000	\$ 715,594	\$ 4,017,307	\$ 3,301,713	17.8	\$ -	N/A
1/1/2003	766,342	4,136,854	3,370,512	18.5	-	N/A
1/1/2006	827,258	4,376,738	3,549,480	18.9	-	N/A

2. SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2004	500,406	76.8%
2005	500,406	87.9%
2006	500,406	88.1%
2007	500,406	82.4%
2008	500,406	79.4%

3. NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Valuation Date	01/01/06
Valuation Method	Entry age normal funding method (an aggregate variation)
Amortization method and period	Amortization period selected by actuary is twelve (12) years. Amortization is achieved using level dollar payments sufficient to pay interest on the unamortized amount each year.
Actuarial asset valuation method	Mean of book and market value
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increases	None
Post retirement benefit increases	None
Inflation	None

City of Hopkinsville, Kentucky
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 3,873,000	\$ 3,953,000	\$ 3,875,644	\$ (77,356)
Licenses and permits	16,752,500	16,877,500	16,690,504	(186,996)
Fines and forfeits	20,000	20,000	22,717	2,717
Intergovernmental	470,000	561,250	565,802	4,552
Charges for services	-	-	-	-
Interest	60,000	100,000	162,432	62,432
Other revenues	928,745	1,057,337	1,019,561	(37,776)
	<u>22,104,245</u>	<u>22,569,087</u>	<u>22,336,660</u>	<u>(232,427)</u>
Total Revenues				
EXPENDITURES				
Current:				
General government:				
Administrative	1,893,150	1,898,846	1,765,815	133,031
Tax department	339,235	422,301	366,546	55,755
Legislative	295,909	311,939	284,881	27,058
Public safety:				
Police	5,538,188	5,465,240	5,435,277	29,963
Fire	5,443,776	5,151,664	5,083,797	67,867
Other	700,000	1,082,975	1,081,849	1,126
Public works:				
Administrative	186,518	197,518	194,938	2,580
Street	1,124,150	1,125,991	1,050,466	75,525
Other	1,621,000	1,297,912	619,501	678,411
Service center	326,629	327,028	291,234	35,794
Community development	2,093,292	4,293,511	3,086,010	1,207,501
Parks and recreation	250,000	257,633	227,777	29,856
Debt service:				
Principal	635,553	635,553	635,553	-
Interest & finance charges	334,417	334,417	334,417	-
	<u>20,781,817</u>	<u>22,802,528</u>	<u>20,458,061</u>	<u>2,344,467</u>
Total expenditures				
Excess of revenues over (under) expenditures	1,322,428	(233,441)	1,878,599	2,112,040
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	25,000	25,000	40,037	15,037
Issuance of debt	-	1,300,000	1,300,000	-
Transfers in	4,721	4,721	153,721	149,000
Transfers out	(845,000)	(1,449,116)	(1,449,116)	-
	<u>(815,279)</u>	<u>(119,395)</u>	<u>44,642</u>	<u>164,037</u>
Total other financing sources (uses)				
Net change in fund balance	507,149	(352,836)	1,923,241	2,276,077
Fund balance beginning of year	4,089,074	4,089,074	4,089,074	-
Fund balance end of year	<u>\$ 4,596,223</u>	<u>\$ 3,736,238</u>	<u>\$ 6,012,315</u>	<u>\$ 2,276,077</u>

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)
ON BUDGETARY ACCOUNTING AND CONTROL
For the Year Ended June 30, 2008

Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting:

Encumbrance accounting, under which purchase orders are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City reports financial position, results of operations and changes in fund balance on the modified-accrual basis of generally accepted accounting principles (GAAP). Budgets for the General Fund and Municipal Road Aid Fund are adopted based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Budgetary Comparison Schedule presented for these funds is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

A reconciliation of resultant basis, timing, perspective, and entity differences in the excess of revenues and other sources of financial resources over expenditures and other uses of financial resources for the year ended June 30 of the General Fund is presented below.

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	\$ 1,923,241
Adjustments:	
To adjust expenditures for salary accruals	(40,483)
To adjust expenditures for payable accruals	(85,358)
To adjust revenues for tax and license accruals	<u>155,979</u>
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 1,953,379</u>

**City of Hopkinsville, Kentucky
Other Supplementary Information
Budgetary Comparison Schedule
Municipal Road Aid Special Revenue Fund
For the Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental	\$ 485,000	\$ 545,000	\$ 550,638	\$ 5,638
Other	-	-	-	-
Interest	<u>5,000</u>	<u>5,000</u>	<u>14,315</u>	<u>9,315</u>
Total Revenues	<u>490,000</u>	<u>550,000</u>	<u>564,953</u>	<u>14,953</u>
EXPENDITURES				
Public works	<u>490,000</u>	<u>818,443</u>	<u>549,389</u>	<u>269,054</u>
Total expenditures	<u>490,000</u>	<u>818,443</u>	<u>549,389</u>	<u>269,054</u>
Excess of revenues over expenditures	<u>-</u>	<u>(268,443)</u>	<u>15,564</u>	<u>284,007</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	(268,443)	15,564	284,007
Fund balance beginning of year	<u>393,240</u>	<u>393,240</u>	<u>393,240</u>	<u>-</u>
Fund balance end of year	<u>\$ 393,240</u>	<u>\$ 124,797</u>	<u>\$ 408,804</u>	<u>\$ 284,007</u>

City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
ASSETS				
Pooled cash and cash equivalents	\$ 1,311,242	\$ 62,572	\$ -	\$ 1,373,814
Non-pooled cash and cash equivalents	137,320	-	121,122	258,442
Investments	284,631	-	218,102	502,733
Loans receivable	190,553	-	-	190,553
Due from component unit	208,342	-	-	208,342
Other receivables	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,132,088</u>	<u>\$ 62,572</u>	<u>\$ 339,224</u>	<u>\$ 2,533,884</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 11,400	\$ -	\$ -	\$ 11,400
Interfund payables	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>11,400</u>	<u>-</u>	<u>-</u>	<u>11,400</u>
FUND BALANCES				
Reserved for encumbrances	266,223	-	-	266,223
Reserved for long-term loans	398,894	-	-	398,894
Reserved for legal restrictions	-	37,240	-	37,240
Unreserved, undesignated, reported in:				
Special revenue funds	1,455,571	-	-	1,455,571
Capital project funds	-	25,332	-	25,332
Permanent fund	-	-	339,224	339,224
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>2,120,688</u>	<u>62,572</u>	<u>339,224</u>	<u>2,522,484</u>
Total liabilities and fund balances	<u>\$ 2,132,088</u>	<u>\$ 62,572</u>	<u>\$ 339,224</u>	<u>\$ 2,533,884</u>

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ 1,289,386	\$ -	\$ -	\$ 1,289,386
Investment income	62,442	256	8,645	71,343
Other	80,737	-	14,400	95,137
Total revenues	<u>1,432,565</u>	<u>256</u>	<u>23,045</u>	<u>1,455,866</u>
EXPENDITURES				
General government	51,305	15,427	-	66,732
Public safety	452,642	-	-	452,642
Public works	549,389	-	-	549,389
Community development	683,629	-	-	683,629
Total expenditures	<u>1,736,965</u>	<u>15,427</u>	<u>-</u>	<u>1,752,392</u>
Excess of revenues over (under) expenditures	<u>(304,400)</u>	<u>(15,171)</u>	<u>23,045</u>	<u>(296,526)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	753,116	130,000	-	883,116
Transfers out	-	(341,630)	-	(341,630)
Total other financing sources (uses)	<u>753,116</u>	<u>(211,630)</u>	<u>-</u>	<u>541,486</u>
Net change in fund balances	448,716	(226,801)	23,045	244,960
Fund balances beginning of year	<u>1,671,972</u>	<u>289,373</u>	<u>316,179</u>	<u>2,277,524</u>
Fund balances end of year	<u>\$ 2,120,688</u>	<u>\$ 62,572</u>	<u>\$ 339,224</u>	<u>\$ 2,522,484</u>

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2008**

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Drug Enforcement	Expendable Trust Funds	TIF Fund	Inner City REZ	General Liability Insurance Contingency	Special Projects	Total Nonmajor Special Revenue Funds
ASSETS												
Pooled cash and cash equivalents	\$ 408,804	\$ -	\$ 33,295	\$ 18,600	\$ 139,264	\$ 56,578	\$ -	\$ 2,226	\$ 302,951	\$ 263,023	\$ 86,501	\$ 1,311,242
Non-pooled cash and cash equivalents	-	-	-	-	-	-	137,320	-	-	-	-	137,320
Investments	-	-	-	-	-	-	284,631	-	-	-	-	284,631
Loans receivable	-	-	-	-	190,553	-	-	-	-	-	-	190,553
Due from component unit	-	-	-	-	208,342	-	-	-	-	-	-	208,342
Other receivables	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 408,804	\$ -	\$ 33,295	\$ 18,600	\$ 538,159	\$ 56,578	\$ 421,951	\$ 2,226	\$ 302,951	\$ 263,023	\$ 86,501	\$ 2,132,088
LIABILITIES AND FUND BALANCES												
LIABILITIES												
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,400	\$ -	\$ -	\$ 11,400
Interfund payables	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	11,400	-	-	11,400
FUND BALANCES												
Reserved for encumbrances	266,223	-	-	-	-	-	-	-	-	-	-	266,223
Reserved for long-term loans	-	-	-	-	398,894	-	-	-	-	-	-	398,894
Unreserved, undesignated, reported in: Special revenue funds	142,581	-	33,295	18,600	139,265	56,578	421,951	2,226	291,551	263,023	86,501	1,455,571
Total fund balances	408,804	-	33,295	18,600	538,159	56,578	421,951	2,226	291,551	263,023	86,501	2,120,688
Total liabilities and fund balances	\$ 408,804	\$ -	\$ 33,295	\$ 18,600	\$ 538,159	\$ 56,578	\$ 421,951	\$ 2,226	\$ 302,951	\$ 263,023	\$ 86,501	\$ 2,132,088

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2008

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Drug Enforcement	Expendable Trust Funds	TIF Fund	Inner City REZ	General Liability Insurance Contingency	Special Projects	Total Nonmajor Special Revenue Funds
REVENUES												
Intergovernmental	\$ 550,638	\$ 279,542	\$ 226,489	\$ 232,717	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,289,386
Investment income	14,315	-	-	-	9,264	-	38,863	-	-	-	-	62,442
Other	-	-	-	-	-	28,565	-	-	-	51,342	830	80,737
Total revenues	<u>564,953</u>	<u>279,542</u>	<u>226,489</u>	<u>232,717</u>	<u>9,264</u>	<u>28,565</u>	<u>38,863</u>	<u>-</u>	<u>-</u>	<u>51,342</u>	<u>830</u>	<u>1,432,565</u>
EXPENDITURES												
General government	-	-	-	-	15,000	-	9,746	5,198	-	-	21,361	51,305
Public safety	-	-	208,251	227,836	-	16,555	-	-	-	-	-	452,642
Public works	549,389	-	-	-	-	-	-	-	-	-	-	549,389
Community development	-	279,542	-	-	-	-	-	-	403,337	-	750	683,629
Total expenditures	<u>549,389</u>	<u>279,542</u>	<u>208,251</u>	<u>227,836</u>	<u>15,000</u>	<u>16,555</u>	<u>9,746</u>	<u>5,198</u>	<u>403,337</u>	<u>-</u>	<u>22,111</u>	<u>1,736,965</u>
Excess of revenues over (under) expenditures	<u>15,564</u>	<u>-</u>	<u>18,238</u>	<u>4,881</u>	<u>(5,736)</u>	<u>12,010</u>	<u>29,117</u>	<u>(5,198)</u>	<u>(403,337)</u>	<u>51,342</u>	<u>(21,281)</u>	<u>(304,400)</u>
OTHER FINANCING SOURCES (USES)												
Transfers in	-	-	89,222	-	-	-	-	6,830	500,000	100,000	57,064	753,116
Transfer out	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>89,222</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,830</u>	<u>500,000</u>	<u>100,000</u>	<u>57,064</u>	<u>753,116</u>
Net change in fund balances	15,564	-	107,460	4,881	(5,736)	12,010	29,117	1,632	96,663	151,342	35,783	448,716
Fund balances beginning of year	<u>393,240</u>	<u>-</u>	<u>(74,165)</u>	<u>13,719</u>	<u>543,895</u>	<u>44,568</u>	<u>392,834</u>	<u>594</u>	<u>194,888</u>	<u>111,681</u>	<u>50,718</u>	<u>1,671,972</u>
Fund balances end of year	<u>\$ 408,804</u>	<u>\$ -</u>	<u>\$ 33,295</u>	<u>\$ 18,600</u>	<u>\$ 538,159</u>	<u>\$ 56,578</u>	<u>\$ 421,951</u>	<u>\$ 2,226</u>	<u>\$ 291,551</u>	<u>\$ 263,023</u>	<u>\$ 86,501</u>	<u>\$ 2,120,688</u>

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2008**

	Capital Fund	Park Construction Fund	Total Nonmajor Capital Projects Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Pooled cash and cash equivalents	\$ 37,240	\$ 25,332	\$ 62,572
Non-pooled cash and cash equivalents	-	-	-
Loans receivable	<u>-</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 37,240</u>	 <u>\$ 25,332</u>	 <u>\$ 62,572</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
 Total liabilities	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>
 FUND BALANCES			
Reserved for encumbrances	-	-	-
Reserved for legal restrictions	37,240	-	37,240
Unreserved, undesignated, reported in:			
Capital project funds	<u>-</u>	<u>25,332</u>	<u>25,332</u>
 Total fund balances	 <u>37,240</u>	 <u>25,332</u>	 <u>62,572</u>
 Total liabilities and fund balances	 <u>\$ 37,240</u>	 <u>\$ 25,332</u>	 <u>\$ 62,572</u>

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2008

	<u>Capital Fund</u>	<u>Park Construction Fund</u>	<u>Total Nonmajor Capital Projects Funds</u>
REVENUES			
Investment income	\$ -	\$ 256	\$ 256
Total revenues	<u>-</u>	<u>256</u>	<u>256</u>
EXPENDITURES			
General government	<u>-</u>	<u>15,427</u>	<u>15,427</u>
Total expenditures	<u>-</u>	<u>15,427</u>	<u>15,427</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>(15,171)</u>	<u>(15,171)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	130,000	-	130,000
Transfers out	<u>(148,999)</u>	<u>(192,631)</u>	<u>(341,630)</u>
Total other financing sources (uses)	<u>(18,999)</u>	<u>(192,631)</u>	<u>(211,630)</u>
Net change in fund balances	(18,999)	(207,802)	(226,801)
Fund balances beginning of year	<u>56,239</u>	<u>233,134</u>	<u>289,373</u>
Fund balances end of year	<u>\$ 37,240</u>	<u>\$ 25,332</u>	<u>\$ 62,572</u>

CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

<u>Grantor and Program Title</u>	<u>CFDA Number</u>	<u>Grantor Number</u>	<u>Expenditures</u>
U. S. Department of Housing and Urban Development			
Community Development Block Grant - Entitlement	14.218	B05-MC-210002 B06-MC-210002	\$ 69,604 * 209,938 *
Home Investment Partnership Program Passed through Kentucky Housing Corp.	14.239	FC06-0351-01 and FC06-0351-02	43,964
Department of Homeland Security			
Hazard Mitigation Acquisition/Demolition Grant Passed through Kentucky Division of Emergency Management	97.039	PON2-095-0700003628-1 PON2-095-0600002920-1	47,225 340
Pre-Disaster Mitigation Grant Passed through Kentucky Division of Emergency Management	97.017	PON2-095-0600002963-1	1,667
Flood Mitigation Plan Grant Passed through Kentucky Division of Emergency Management	97.029	PON2-095-0600002636-1	7,467
Homeland Security Grant Program FFY06 Passed through Kentucky Office of Homeland Security	97.067	PO2-094-0600003529-1	15,428
Assistance to Firefighters Grant Program	97.044	EMW-2007-FO-02072	167,837
U.S. Department of Justice			
Community Oriented Policing Services Justice Assistance Grant	16.710 16.738	2005SHWX0005	76,667 10,205
U.S. Department of Interior			
Walnut Street Boys & Girls Club (Passed through Kentucky Dept for Local Government)	15.916	LWCF Project No. 21-01167	8,519
U.S. Department of Transportation			
Surface Transportation Program Passed through Kentucky Transportation Cabinet:			
ISTEA Grant-Sidewalk/Streetscape Improvements	20.205	C-02262574	195,775
Jeffers Bend Walking Trail	20.205	C-03149766	16,264
Streetscape Sidewalk Project	20.205		14,520
Recreational Trails Grant (Passed through Kentucky Dept for Local Government)	20.205		<u>40,653</u>
Total Federal Expenditures			<u>\$ 926,073</u>

*Denotes major program

In addition to federal funds, the Expenditures column might include local matching funds specifically designated for the purpose of matching federal grant monies.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2007

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Hopkinsville, Kentucky, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - SUBRECIPIENTS

The City of Hopkinsville provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Community Development Block Grant	14.218	<u>\$ 43,679</u>



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LEONARD F. ADCOCK, CPA
JOHN M. DeANGELIS, CPA
KERRY T. FORT, CPA

**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 City Council
City of Hopkinsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hopkinsville, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the City of Hopkinsville, Kentucky's basic financial statements and have issued our report thereon dated December 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hopkinsville, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Hopkinsville, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of Hopkinsville, Kentucky's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City Hopkinsville, Kentucky's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

York, Neal + Co. - Hopkinsville, KY

Hopkinsville, Kentucky
December 30, 2008



& CO. – HOPKINSVILLE, LLP

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KERRY T. FORT, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor
and City Council
City of Hopkinsville, Kentucky

Compliance

We have audited the compliance of the City of Hopkinsville, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Hopkinsville, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Hopkinsville, Kentucky's management. Our responsibility is to express an opinion on the City of Hopkinsville, Kentucky's compliance based on our audit.

City of Hopkinsville's basic financial statements include the operations of Hopkinsville Water Environment Authority (a discretely presented component unit), which received \$1,840,634 in federal awards that is not included in the schedule during the year ended June 30, 2008. Our audit of compliance, described below, did not include the operations of Hopkinsville Water Environment Authority because Hopkinsville Water Environment Authority had a separately issued report in accordance with OMB Circular A-133.

We conducted our 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we 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 Hopkinsville's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Hopkinsville, Kentucky's compliance with those requirements.

In our opinion, the City of Hopkinsville, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Hopkinsville is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hopkinsville, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hopkinsville, Kentucky's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Yeh, Neal + Co. - Hopkinsville, KY

Hopkinsville, Kentucky
December 30, 2008

CITY OF HOPKINSVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Hopkinsville, Kentucky.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City of Hopkinsville, Kentucky, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the City of Hopkinsville, Kentucky, expressed an unqualified opinion on the major federal program.
6. The program tested as a major program included: U.S. Department of Housing and Urban Development – Community Development Block Grant – Entitlement – CFDA number 14.218.
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The City of Hopkinsville, Kentucky, was determined to be a low-risk auditee in regards to the U.S. Department of Housing and Urban Development – Community Development Block Grant – Entitlement.

B. Findings - Financial Statements Audit

1. None.

C. Findings and Questioned Costs - Major Federal Award Program Audit

1. U.S. Department of Housing and Urban Development

Community Development Block Grant – Entitlement – CFDA number 14.218; Grant numbers B05-MC-210002 and B06-MC-210002; Grant period – year ended June 30, 2008.

None

CITY OF HOPKINSVILLE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

The City of Hopkinsville, Kentucky had no prior audit findings.