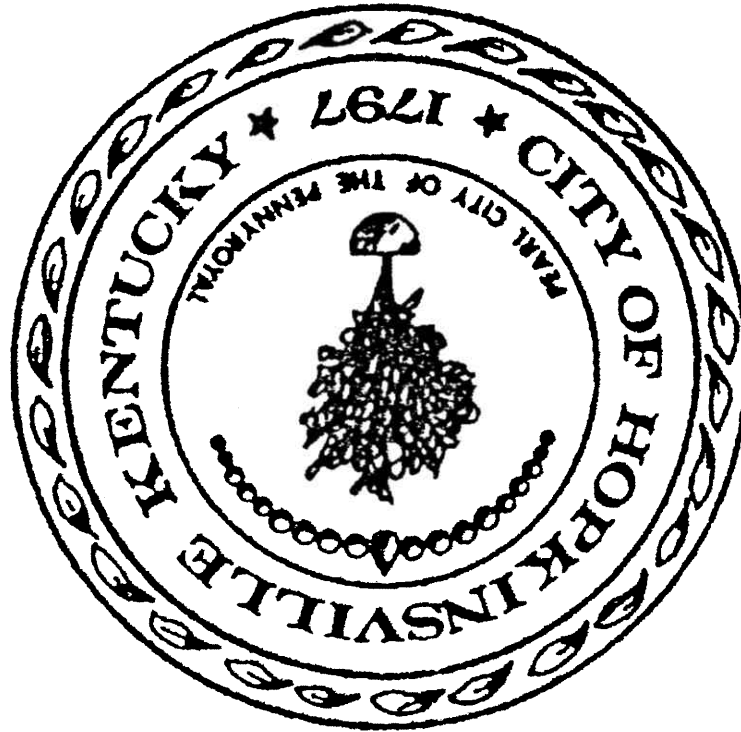


**CITY OF HOPKINSVILLE, KENTUCKY
BASIC FINANCIAL STATEMENTS**



**For the Year Ended
June 30, 2007**

**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, 2007, 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, 2007, and the respective changes in financial position and, where applicable, cash flows 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 28, 2007, 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 should be considered in 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 58 through 60 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 and individual 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 and individual 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.

John T. Hall + Co., Inc.

Hopkinsville, Kentucky
December 28, 2007

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, 2007. 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 \$15.36 million at the close of the 2006-07 fiscal year.
- Total net assets decreased by \$3,302,458.
- At fiscal year end, City governmental funds reported a combined ending fund balance of \$6.61 million. Approximately 84.15% of this total amount, \$5.57 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 \$3.86 million, 19% 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 helps 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 and community and economic development. Business-type activities of the City include the family aquatic center and parks and cemeteries.

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 Surface and Storm Water Utility, and Hopkinsville Solid Waste Authority. 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 nineteen (19) 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 Miscellaneous Grants Fund, which are considered to be major funds. Data from the other seventeen (17) 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 Parks and Cemeteries, as well as the discretely presented component units that provide water and sewerage services, storm water, and solid waste services.

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 27-56 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 individual fund statements and schedules can be found on pages 61-66 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 \$15.36 million at June 30, 2007.

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 Hopkinstown Net Assets

	Governmental		Business-Type		Total
	2007	2006	2007	2006	2007
Current and other assets	\$ 8,205,144	\$ 10,985,881	\$ (34,944)	\$ (86,134)	\$ 8,170,200
Capital assets	18,593,681	19,580,852	4,307,598	394,682	22,901,279
Total assets	\$ 26,798,825	\$ 30,566,733	\$ 4,272,654	\$ 308,548	\$ 31,071,479
Long-term liabilities outstanding	\$ 10,251,523	\$ 11,016,707	\$ 29,854	\$ 22,743	\$ 10,281,377
Other liabilities	1,191,283	891,549	14,645	6,259	1,205,928
Total liabilities	\$ 11,442,806	\$ 11,908,256	\$ 44,499	\$ 29,002	\$ 11,487,305
Net assets:					
Invested in capital assets, net of related debt	\$ 11,408,970	\$ 12,075,586	\$ 4,307,599	\$ 394,682	\$ 15,716,568
Restricted	709,013	753,140	-	-	709,013
Unrestricted	3,238,036	5,829,751	(79,443)	(115,136)	3,158,593
Total net assets	\$ 15,356,019	\$ 18,658,477	\$ 4,228,155	\$ 279,546	\$ 19,584,174

A. Analysis of the City's Operations

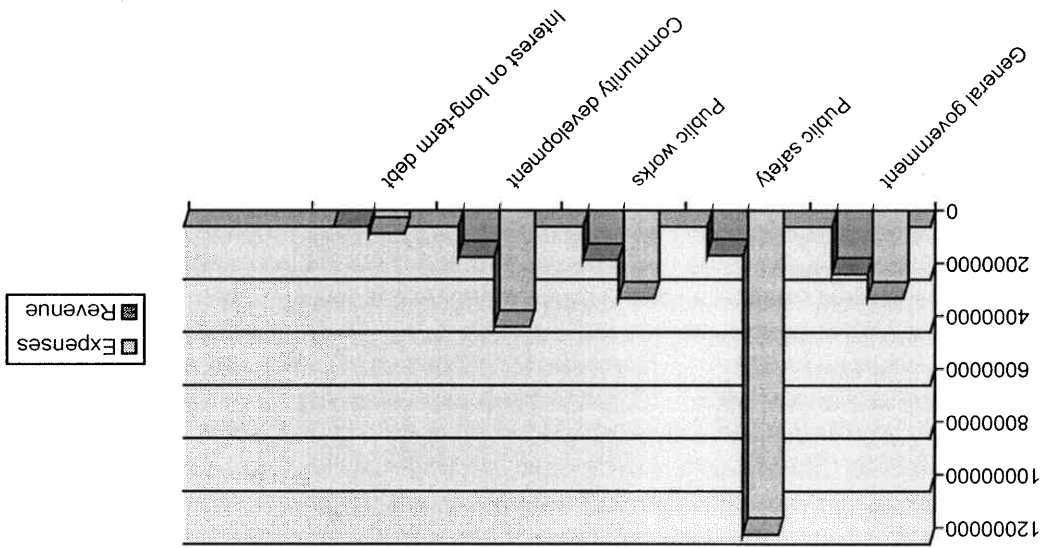
The following table provides a summary of the City's operations for the year ended June 30, 2007. Governmental activities decreased the City's net assets by \$3.30 million. Business-type activities increased the city's net assets by \$11.94 million.

City of Hopkinsville – Changes in Net Assets

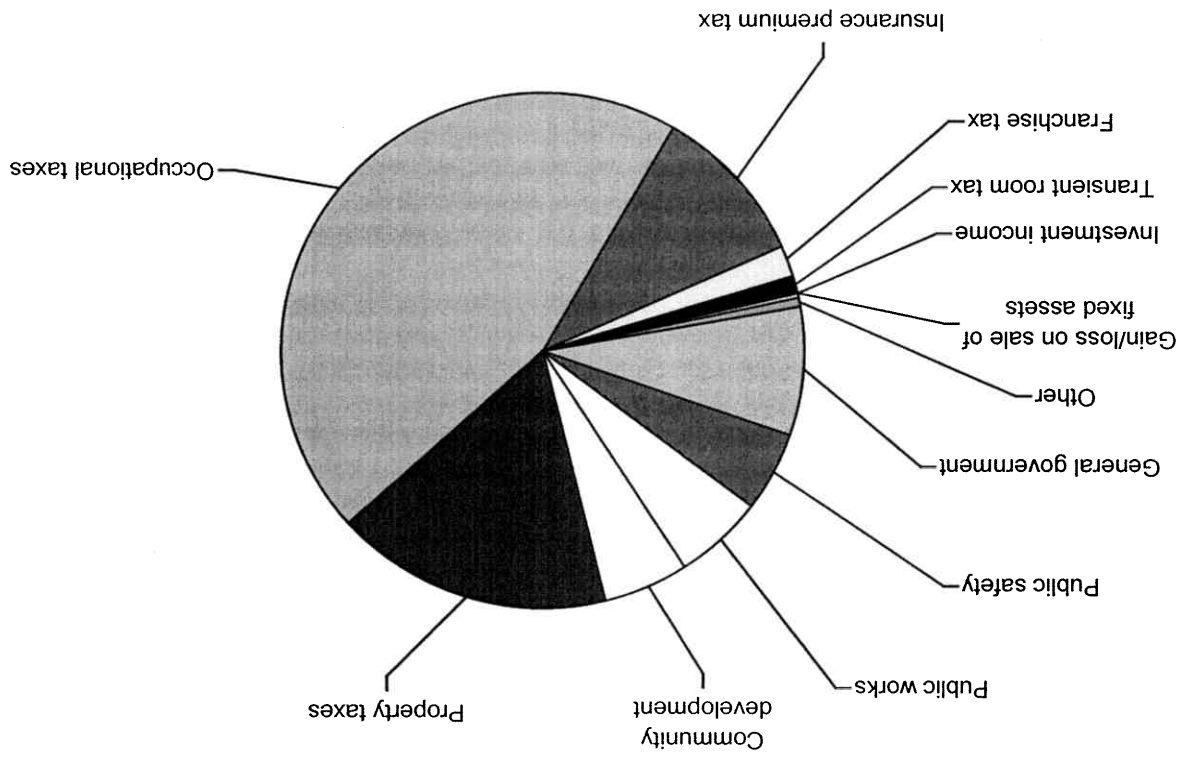
	2007	2006	2007	2006	2007	2006
	Governmental	Business-Type	Activities	Total	2007	2006
Revenues:						
Program revenues:						
Charges for services and sales	\$ 1,421,203	\$ 1,350,617	\$ 306,306	\$ 193,590	\$ 1,727,509	\$ 1,544,207
Operating grants/contributions/interest	2,747,354	1,988,052	-	-	2,747,354	1,998,052
Capital grants/contributions	1,136,602	968,602	-	-	1,136,602	968,602
General revenues:						
Property taxes	3,840,840	3,695,200	-	-	3,840,840	3,695,200
Occupational taxes	9,977,514	9,635,930	-	-	9,977,514	9,635,930
Insurance premium tax	2,220,227	2,120,397	-	-	2,220,227	2,120,397
Franchise tax	398,009	474,085	-	-	398,009	474,085
Transient room tax	244,722	237,015	-	-	244,722	237,015
Intergovernmental	-	-	-	-	-	-
Investment income	11,112	6,505	576	-	11,688	6,505
Gain or loss on sale of fixed assets	31,298	10,117	7,738	-	39,036	10,117
Other	149,267	236,321	-	-	149,267	236,321
Total revenues	\$ 22,178,148	\$ 20,722,841	\$ 314,620	\$ 193,590	\$ 22,492,768	\$ 20,916,431
Expenses:						
General government	\$ 2,708,106	\$ 2,909,578	\$ -	\$ -	\$ 2,708,106	\$ 2,909,578
Public safety	11,631,175	10,670,500	-	-	11,631,175	10,670,500
Public works	2,710,691	3,129,232	-	-	2,710,691	3,129,232
Community development	3,792,400	3,594,244	-	-	3,792,400	3,594,244
Interest on long-term debt	267,302	181,949	-	-	267,302	181,949
The Breaker Family Aquatic	-	-	240,365	-	240,365	-
Parks & cemeteries	-	-	496,578	452,860	496,578	452,860
Total expenses	\$ 21,109,674	\$ 20,485,503	\$ 736,943	\$ 452,860	\$ 21,846,617	\$ 20,938,363
Transfers						
Increase in net assets before Transfers	\$ 1,068,474	\$ 237,338	\$ (422,323)	\$ (259,270)	\$ 646,151	\$ (21,932)
Transfer of net liabilities to component unit	(4,370,932)	(299,329)	4,370,932	299,329	-	-
Increase (decrease) in net assets	(3,302,458)	(61,991)	11,944,123	40,059	8,641,665	(21,932)
Net assets – 7/1/06	18,658,477	18,720,468	(7,715,968)	239,487	10,942,509	18,959,955
Net assets – 6/30/07	\$ 15,356,019	\$ 18,658,477	\$ 4,228,155	\$ 279,546	\$ 19,584,174	\$ 18,938,023

B. Governmental Activities

Expenses and Program Revenues – Governmental Activities



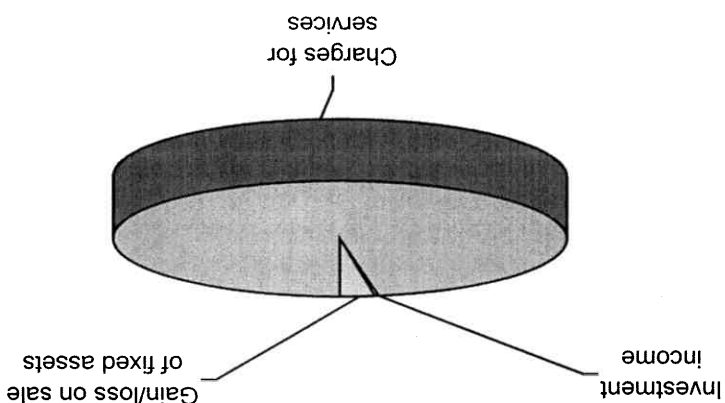
Revenue by Source – Governmental Activities



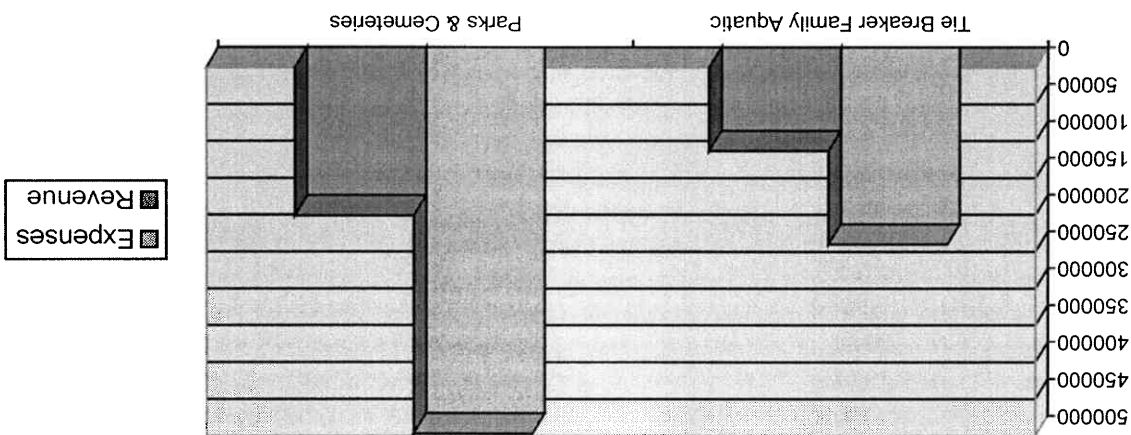
The total ending fund balances of governmental funds show a decrease of \$3.4 million over the prior year. This decrease is primarily the result of events and programs described within the analysis of the City's governmental activities.

At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$6.61 million. Approximately 84.2% of this total amount, \$5.57 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 (\$496 thousand); 2) to make certain long-term loans (\$496 thousand); and 3) legally restricted as to purpose (\$56,239).

D. Governmental Funds



Revenue by Source – Business-Type Activities



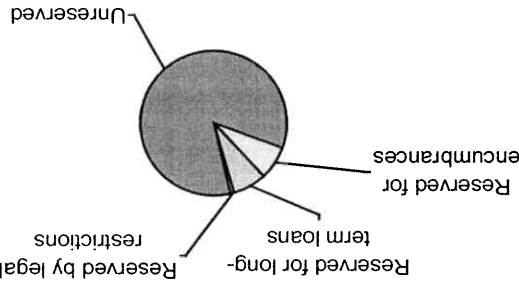
Expenses and Revenues – Business-Type Activities

Business-type activities increased the City's net assets by \$11.94 million.

C. Business-Type 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 2006-07 fiscal year, the general fund unreserved fund balance was \$3,861,453, while total fund balance was \$4,089,074. 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 19% and total fund balance represents 20% of total general fund expenditures (\$20.2 million).

The miscellaneous grants fund has a total fund balance of \$242,210. 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	\$	41,952
Parks and Cemeteries	\$	145,494

Total increase in net assets for Tie Breaker Family Aquatic was (\$3.94 million) and total decrease in net assets for Parks and Cemeteries (\$3,543). 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 \$767,994 increase in appropriations and can be briefly summarized as follows:

•	\$	31,000	increase in general administrative
•	\$	89,199	increase in tax department
•	\$	8,470	increase in legislative
•	\$	62,250	increase in police
•	\$	60,000	increase in fire
•	\$	-	no change in other public safety
•	\$	9,000	increase in public works administrative
•	\$	120,486	increase in street
•	\$	926	increase in other public works
•	\$	4,410	increase in service center
•	\$	-	no change in debt service principle
•	\$	5,100	increase in interest charges
•	\$	377,153	increase in community development

The net increase to appropriations of \$767,994 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 \$1,183,357 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 Boys and Girls Club room addition and appropriations for programs that were not expended during the 2006-2007 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, 2007, is \$22.9 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)**

	2007	2006	2007	2006	2007	2006	Total
Governmental							
Activities							
Land	\$ 1,755,621	\$ 1,615,621	\$ 260,159	\$ 260,159	\$ 2,015,780	\$ 1,875,780	
Construction in Progress	153,886	2,057,289	-	-	153,886	2,057,289	
Land improvements	2,697,678	2,726,090	63,670	17,074	2,761,348	2,743,164	
Buildings	3,443,287	3,164,113	3,760,857	40,501	7,204,144	3,204,614	
Machinery and equipment	3,267,019	2,890,630	222,912	76,948	3,489,931	2,967,578	
Infrastructure	7,276,190	7,127,109	-	-	7,276,190	7,127,109	
Total	\$18,593,681	\$19,580,852	\$4,307,598	\$394,682	\$22,901,279	\$19,975,534	
Business-Type							
Activities							
Total	2007	2006	2007	2006	2007	2006	

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 \$8.4 million in outstanding notes, bonds and capital leases, compared to \$8.9 million at June 30, 2006, a decrease of \$502 thousand. The following table illustrates the changes in outstanding notes, bonds and capital leases:

	2007	2006	Governmental Activities
KLC General Obligation bonds	\$ 7,071,229	\$ 7,476,663	
KLC Softball Complex bond	1,364,481	1,460,604	
Total	\$ 8,435,710	\$ 8,937,267	

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 \$137,331,359. 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 2007 was 6.6%. This rate compares unfavorably to state and federal unemployment rates, 5.7% 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 2006-2007 budget for the City of Hopkinsville was prepared. The beginning general fund balance for fiscal year 2006-2007 was \$5,429,133, and has estimated an ending fund balance of \$4,089,074. 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, 2007

Primary Government							
Component	Units	Governmental	Business-type	Total	Governmental	Business-type	Total
ASSETS							
Pooled cash and cash equivalents		\$ 3,581,830	\$ 189,993	\$ 3,771,823			\$ -
Non-pooled cash and cash equivalents		480,388	41,952	522,340			2,811,195
Investments		-	-	-			-
Accounts receivable		-	-	-			-
Taxes receivable		1,615,462	-	1,615,462			-
Interest receivable		6,322	-	6,322			-
Intergovernmental receivables		22,624	-	22,624			-
Other receivables		960,409	-	960,409			-
Prepaid expenses		-	-	-			-
Internal balances		266,889	(266,889)	-			-
Due from component unit		209,291	-	209,291			-
Deferred charges		119,782	-	119,782			-
Inventory		-	-	-			-
Noncurrent restricted assets:		-	-	-			-
Temporarily restricted:		-	-	-			-
Cash and cash equivalents		256,176	-	256,176			11,582,277
Investments		369,793	-	369,793			-
Permanently restricted assets:		-	-	-			-
Cash and cash equivalents		18,189	-	18,189			-
Investments		297,989	-	297,989			-
Capital Assets		-	-	-			-
Land and construction in progress		1,909,507	260,159	2,169,666			29,162,929
Depreciable capital assets, net		16,684,174	4,047,439	20,731,613			52,562,936
Total capital assets		18,593,681	4,307,598	22,901,279			81,725,865
Total assets		\$ 26,798,825	\$ 4,272,654	\$ 31,071,479			\$ 99,003,712
LIABILITIES							
Accrued salaries		\$ 296,698	\$ 9,377	\$ 306,075			\$ 50,980
Accounts payable		-	-	-			1,705,875
Bond issue cost payable		-	-	-			-
Claims payable		41,027	-	41,027			-
Accrued interest		40,657	-	40,657			298,262
Transient bond deposits		500	-	500			-
Construction retainerage payable		-	-	-			1,183,484
Customer deposits		-	-	-			104,294
Note payable-UDAG		-	-	-			245,000
Due to primary government		-	-	-			114,058
Noncurrent liabilities:		-	-	-			-
Due within one year		633,037	-	633,037			3,316,675
Due beyond one year		9,235,127	-	9,235,127			59,783,415
Compensated absences:		-	-	-			-
Due within one year		179,364	5,268	184,632			257,653
Due beyond one year		1,016,396	29,854	1,046,250			-
Total liabilities		11,442,806	44,499	11,487,305			67,059,696
NET ASSETS							
Invested in capital assets, net of related debt		11,408,970	4,307,598	15,716,568			30,591,131
Restricted for:		-	-	-			11,582,277
Other		-	-	-			-
Perpetual care:		-	-	-			-
Expendable		392,834	-	392,834			-
Nonexpendable		316,179	-	316,179			-
Unrestricted		3,238,036	(79,443)	3,158,593			(10,229,392)
Total net assets		15,356,019	4,228,155	19,584,174			31,944,016
Total liabilities and net assets		\$ 26,798,825	\$ 4,272,654	\$ 31,071,479			\$ 99,003,712

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, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	Component Units
PRIMARY GOVERNMENT							
Governmental activities:							
General government	\$ (2,708,106)	\$ 1,370,145	\$ 426,740	\$ (911,221)	\$ -	\$ (911,221)	\$ -
Public safety	(11,631,175)	35,079	951,897	(10,538,359)	-	(10,538,359)	-
Community development	(2,710,691)	-	637,410	(1,450,786)	-	(1,450,786)	-
Interest on long-term debt	(3,792,400)	15,979	731,307	(2,636,847)	-	(2,636,847)	-
	(267,302)	-	-	(267,302)	-	(267,302)	-
Total governmental activities	(21,109,674)	1,421,203	2,747,354	(15,804,515)	-	(15,804,515)	-
Business-type activities:							
Sanitation	-	-	-	-	-	-	-
Tie Breaker Family Aquatic Parks & cemeteries	(240,365)	112,846	-	(127,519)	-	(127,519)	-
	(496,578)	193,460	-	(303,118)	-	(303,118)	-
Total business-type activities	(736,943)	306,306	-	(430,637)	(430,637)	(430,637)	-
Total - primary government	<u>\$ (21,846,617)</u>	<u>\$ 1,727,509</u>	<u>\$ 2,747,354</u>	<u>\$ (15,804,515)</u>	<u>(430,637)</u>	<u>(16,235,152)</u>	<u>-</u>
COMPONENT UNITS							
Hopkinsville Water Environment Authority	(10,326,435)	9,468,864	-	623,110	-	-	(234,461)
Hopkinsville Surface and Stormwater	(553,054)	448,497	-	-	-	-	(104,557)
Hopkinsville Solid Waste Authority	(5,497,395)	5,144,076	-	-	-	-	(353,319)
Total - component units	<u>(16,376,884)</u>	<u>15,061,437</u>	<u>-</u>	<u>623,110</u>	<u>-</u>	<u>-</u>	<u>(692,337)</u>
GENERAL REVENUES							
Property taxes				3,840,840	-	3,840,840	-
Occupational taxes				9,977,514	-	9,977,514	-
Insurance premium tax				2,220,227	-	2,220,227	-
Franchise tax				398,009	-	398,009	-
Transient room tax				244,722	-	244,722	-
Investment income				11,112	576	11,688	1,187,032
Gain (loss) on sale of fixed assets				31,298	7,738	39,036	18,330
Other				149,267	-	149,267	341,223
Total general revenues				16,872,989	8,314	16,881,303	1,546,585
Transfers				(4,370,932)	4,370,932	-	-
Transfer of net liabilities to component unit				-	7,995,514	7,995,514	(7,995,514)
Total general revenue & transfers				12,502,057	12,374,760	24,876,817	(6,448,929)
Change in net assets				(3,302,458)	11,944,123	8,641,665	(7,141,266)
Net assets beginning of year				18,658,477	(7,715,968)	10,942,509	39,085,282
Net assets end of year				<u>\$ 15,356,019</u>	<u>\$ 4,228,155</u>	<u>\$ 19,584,174</u>	<u>\$ 31,944,016</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, 2007

ASSETS			
Pooled cash and cash equivalents	\$ 2,664,032	\$ -	\$ 1,151,527
Non-pooled cash and cash equivalents	-	-	41,231
Investments	-	-	667,782
Taxes receivable	1,337,782	-	-
Interest receivable	6,322	-	-
Interfund receivable	355,512	-	-
Intergovernmental receivables	22,624	-	-
Loans receivable	-	-	286,852
Due from component unit	-	-	209,291
Other receivables	-	499,180	24,377
Total assets	\$ 4,386,272	\$ 499,180	\$ 2,381,060
LIABILITIES AND FUND BALANCES			
Accrued salaries	\$ 296,698	\$ -	\$ -
Interfund payables	-	256,970	98,542
Bond issue cost payable	-	-	-
Transient bond deposits	500	-	-
Total liabilities	297,198	256,970	98,542
FUND BALANCES			
Reserved for encumbrances	227,621	-	268,443
Reserved for long-term loans	-	-	496,143
Reserved for legal restrictions	-	-	56,239
Unreserved, undesignated, reported in:			
General fund	3,861,453	-	-
Special revenue funds	-	242,210	912,380
Capital project funds	-	-	233,134
Permanent fund	-	-	316,179
Total fund balances	4,089,074	242,210	2,282,518
Total liabilities and fund balances	\$ 4,386,272	\$ 499,180	\$ 2,381,060

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, 2007

Total fund balance - total governmental funds	\$ 6,613,802
Amounts reported for governmental activities in the statement of net assets are different because:	
Taxes receivable based on availability criteria; \$24,715 property taxes, \$194,242 insurance premium taxes, and \$58,723 franchise taxes.	277,680
Loans to a component unit are considered a receivable on the government wide financial statements.	150,000
Deferred charges - bond refinancing charges, amortizable over life of debt	119,782
Capital assets of \$32,298,589, net of accumulated depreciation of (\$13,704,908), are not financial resources and, therefore, are not reported in the funds. See note 4 for additional detail.	18,593,681
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 \$438,766 are included in governmental activities in the statement of net assets, plus \$266,889 allocated to business type activities.	705,655
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.	(11,063,924)
Accrued interest	(40,657)
Net assets of governmental activities	<u>\$ 15,356,019</u>

City of Hopkinsville, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2007

	Major Fund	Miscellaneous	Grants	Other Governmental	Total Governmental Funds
	General	General	Grants	Other Governmental	Total Governmental Funds
REVENUES					
Taxes	\$ 3,856,133	\$ -	\$ -	\$ -	\$ 3,856,133
Licenses and permits	14,138,584	-	-	-	14,138,584
Fines and forfeits	22,913	-	-	-	22,913
Intergovernmental	449,877	1,255,537	-	1,250,533	2,955,947
Investment income	238,397	-	-	61,466	299,863
Charges for services	708,857	-	-	-	809,706
Other	-	-	-	100,849	-
Total revenues	19,414,761	1,255,537	1,412,848	22,083,146	22,083,146
EXPENDITURES					
Current:					
General government	2,869,530	1,181,792	1,745,572	5,796,894	5,796,894
Public safety	11,133,642	-	478,133	11,611,775	11,611,775
Public works	2,657,427	-	501,137	3,158,564	3,158,564
Community development	2,760,008	-	630,291	3,390,299	3,390,299
Debt service:					
Principal	501,557	-	-	501,557	501,557
Interest	256,628	-	-	256,628	256,628
Total expenditures	20,178,792	1,181,792	3,355,133	24,715,717	24,715,717
Excess of revenues over (under) expenditures	(764,031)	73,745	(1,942,285)	(2,632,571)	(2,632,571)
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	848,003	35,209	661,941	1,545,153	1,545,153
Transfers to other funds	(1,459,268)	(43,000)	(852,649)	(2,354,917)	(2,354,917)
Sale of fixed assets	35,237	-	-	35,237	35,237
Total other financing sources (uses)	(576,028)	(7,791)	(190,708)	(774,527)	(774,527)
Net change in fund balances	(1,340,059)	65,954	(2,132,993)	(3,407,098)	(3,407,098)
Fund balances beginning of year	5,429,133	176,256	4,415,511	10,020,900	10,020,900
Fund balances end of year	\$ 4,089,074	\$ 242,210	\$ 2,282,518	\$ 6,613,802	\$ 6,613,802

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

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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, 2007

Net change in fund balances - total governmental funds	\$ (3,407,098)
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 \$2,572,800 exceeded depreciation of (\$1,501,057) in the current period.	1,071,743
Governmental funds report construction in progress as expenditures. However, in the statement of activities, the cost of those assets is allocated to capital assets. During the year, the construction was completed. The construction in progress was transferred to another Enterprise Fund.	(2,057,289)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The total proceeds were \$30,843 with an overall gain of \$26,905 less \$2,313 for commission expense for 2007.	(1,625)
Governmental funds recognizes loans to a component unit as an expenditure. In the governmental activities, this is considered a receivable.	150,000
Certain imposed nonexchange revenues were not recognized in the governmental funds because they were not available at June 30, 2007. The change in this account balance is a reconciling item for this statement.	52,590
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 \$422,880 is reported with governmental activities, less (\$8,471) allocated to business-type activities.	414,409
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	501,557
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 increase in compensated absences of \$58,695, decrease in accrued interest of (\$2,255), reduction in pension obligation (\$42,625), and amortization of deferred charges of \$12,930.	(26,745)
Change in net assets of governmental activities	\$ (3,302,458)

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, 2007

Business-type Activities
Enterprise Funds

Major Fund		Enterprise Funds	
Tie Breaker Parks & Cemeteries	Family Aquatic	Total	Internal Service Activities- Funds
ASSETS			
Current assets:			
Pooled cash and cash equivalents	\$ -	\$ 189,993	\$ -
Non-pooled cash and cash equivalents	41,952	-	479,793
Accounts receivable	-	-	-
Total current assets	41,952	189,993	479,793
Noncurrent assets:			
Capital assets:			
Land and construction in progress	-	260,159	260,159
Land and construction in progress	3,901,729	145,710	4,047,439
Depreciable capital assets, net	3,901,729	405,869	4,307,598
Total noncurrent assets	3,901,729	595,862	4,539,543
Total assets	\$ 3,943,681	\$ 595,862	\$ 4,79,793
LIABILITIES			
Current liabilities:			
Accrued salaries	\$ -	\$ 9,377	\$ -
Incurrd, not yet reported	-	-	41,027
Accrued landfill closing costs	-	-	-
Compensated absences	-	5,268	-
Total current liabilities	-	14,645	41,027
Noncurrent liabilities:			
Accrued landfill closing costs	-	29,854	-
Compensated absences	-	29,854	-
Total noncurrent liabilities	-	29,854	-
Total liabilities	-	44,499	41,027
NET ASSETS			
Invested in capital assets	3,901,729	405,869	4,307,598
Unrestricted	41,952	145,494	438,766
Total net assets	\$ 3,943,681	\$ 551,363	\$ 4,38,766
Adjustment to reflect the consolidation of applicable			
internal service fund activities to enterprise funds			
		(266,889)	
Net assets of business-type activities		\$ 4,228,155	

The notes to the basic financial statements are an integral part of this statement.
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City of Hopkinsville, Kentucky
Statement of Revenues,
Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

Business-type Activities		Enterprise Funds			
Major Fund				Governmental	
The Breaker	Parks &	Sanitation	Total	Internal Service	Funds
		</			

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, 2007

Business-type Activities				
Governmental	Enterprise Funds	Parks & Cemeteries	The Breaker Family Aquatic	Total
Activities-Internal Service Funds				
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 112,833	\$ 193,460	\$ 306,293	\$ 1,765,090
Other cash receipts	12	-	12	1,751
Cash payments to employees for services	-	(366,322)	(366,322)	-
Cash payments to suppliers	(221,619)	(98,036)	(319,655)	(1,257,365)
Cash payments for claims	-	-	-	149,017
Net cash provided by (used in) operating activities	(108,774)	(270,898)	(379,672)	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	309,456	309,133	618,589	200,000
Transfers out	-	(8,825)	(8,825)	-
Net cash provided by (used in) noncapital financing activities	309,456	300,308	609,764	200,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	3,761,168	-	3,761,168	-
Proceeds from sale of capital assets	-	8,825	8,825	-
Payments for capital acquisitions	(3,920,474)	(37,468)	(3,957,942)	-
Net cash provided by (used in) capital and related financing activities	(159,306)	(28,643)	(187,949)	-
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Transfer to trust	-	-	-	-
Interest on investments	576	-	576	11,112
Net cash provided by (used in) investment activities	576	-	576	11,112
Net increase (decrease) in cash and cash equivalents	41,952	767	42,719	360,129
Cash and cash equivalents, beginning of year	-	189,226	189,226	119,664
Cash and cash equivalents, end of year	\$ 41,952	\$ 189,993	\$ 231,945	\$ 479,793
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (127,519)	\$ (311,589)	\$ (439,108)	\$ 211,767
Adjustments:				
Depreciation	18,745	25,194	43,939	-
(Increase) decrease in assets:				
Accounts receivable	-	-	-	-
Increase (decrease) in liabilities:				
Accrued liabilities	-	15,497	15,497	(62,750)
Net cash provided by (used in) operating activities	\$ (108,774)	\$ (270,898)	\$ (379,672)	\$ 149,017

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

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	Pension Trust Funds
ASSETS	
Accrued interest receivable	\$ 2,165
Investments	633,506
Total assets	<u>\$ 635,671</u>
LIABILITIES	
Administration fees payable	\$ -
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for pension benefits	635,671
Total liabilities and net assets	<u>\$ 635,671</u>

City of Hopkinsville, Kentucky
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2007

Pension	Trust Funds
ADDITIONS	
Contributions:	
Employer	
Plan members	
Total contributions	412,537
Investment earnings:	
Net appreciation (depreciation) in	
fair value of investments	3,522
Interest	23,712
Miscellaneous receipts	4,589
Total investment earnings	31,823
Less investment expense	2,953
Net investment earnings	28,870
Total additions	441,407
DEDUCTIONS	
Benefits	
Change in net assets	24,706
Net assets beginning of year	610,965
Net assets end of year	\$ 635,671

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, 2007

		Major		Nonmajor	
		Hopkinsville	Hopkinsville	Hopkinsville	Total
		Water	Solid Waste	Storm Water	
		Environment	Authority	Utility	
		Authority			
ASSETS					
Cash and cash equivalents	\$ 662,778	\$ 2,028,289	\$ 120,128	\$ 2,811,195	
Receivables	713,668	353,669	90,623	1,157,960	
Inventory	246,541	-	-	246,541	
Prepaid expenses	314,011	-	-	314,011	
Restricted assets:					
Cash and cash equivalents	9,326,964	2,255,313	-	11,582,277	
Deferred charges	797,312	-	-	797,312	
Note receivable	368,551	-	-	368,551	
Capital assets, net of depreciation:					
Land and construction in progress	28,547,347	615,582	-	29,162,929	
Depreciable capital assets	51,281,685	1,281,251	-	52,562,936	
Total assets	\$ 92,258,857	\$ 6,534,104	\$ 210,751	\$ 99,003,712	
LIABILITIES					
Current portion of long-term debt	\$ 3,152,165	\$ -	\$ -	\$ 3,152,165	
Customer deposits	104,294	-	-	104,294	
Accrued interest	295,361	-	2,901	298,262	
Accounts payable	1,525,579	168,775	11,521	1,705,875	
Accrued salaries and compensated absences	131,858	176,775	-	308,633	
Accrued landfill closing costs	-	50,000	-	50,000	
Note payable-UDAG	-	-	245,000	245,000	
Construction retainage payable	1,183,484	-	-	1,183,484	
Notes payable-leased vehicles	-	114,510	-	114,510	
Long-term liabilities:					
Revenue bonds payable (net of current portion)	25,800,000	-	-	25,800,000	
KIA - loans payable (net of current portion)	19,824,803	-	-	19,824,803	
Leased vehicles notes payable (net of current portion)	-	246,128	-	246,128	
Accrued landfill closure costs	-	13,856,268	-	13,856,268	
City of Crofton note payable	56,216	-	-	56,216	
City of Hopkinsville - loan payable	114,058	-	-	114,058	
Total liabilities	52,187,818	14,612,456	259,422	67,059,696	
NET ASSETS					
Invested in capital assets, net of related debt	29,054,936	1,536,195	-	30,591,131	
Net assets, restricted	9,326,964	2,255,313	-	11,582,277	
Net assets, unrestricted	1,689,139	(11,869,860)	(48,671)	(10,229,392)	
Total net assets	40,071,039	(8,078,352)	(48,671)	31,944,016	
Total liabilities and net assets	\$ 92,258,857	\$ 6,534,104	\$ 210,751	\$ 99,003,712	

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

City of Hopkinsville, Kentucky
Statement of Activities
Component Units
For the Year Ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Hopkinsville Water Environment Authority	Hopkinsville Solid Waste Authority	Hopkinsville Surface and Stormwater Authority	Totals
EXPENSES	Expenses						
Hopkinsville Water Environment Authority	\$ (10,326,435)	\$ 9,468,864	\$ -	\$ (234,461)	\$ -	\$ -	\$ (234,461)
Hopkinsville Solid Waste Authority	(5,497,395)	5,144,076	-	-	(353,319)	-	(353,319)
Hopkinsville Surface and Stormwater Utility	(553,054)	448,497	-	-	-	(104,557)	(104,557)
Total expenses	<u>\$ (16,376,884)</u>	<u>15,061,437</u>	<u>-</u>	<u>(234,461)</u>	<u>(353,319)</u>	<u>(104,557)</u>	<u>(692,337)</u>
GENERAL REVENUES:							
Interest revenues				1,027,409	154,541	5,082	1,187,032
Gain (loss) on sale of fixed assets				18,330	-	-	18,330
Miscellaneous				224,563	115,940	700	341,223
Total general revenues				<u>1,270,322</u>	<u>270,481</u>	<u>5,782</u>	<u>1,546,585</u>
Transfer of net liabilities from City				-	(7,995,514)	-	(7,995,514)
Change in net assets				1,035,861	(8,078,352)	(98,775)	(7,141,266)
Net assets beginning of year				39,035,178	-	50,104	39,085,282
Net assets end of year				<u>\$ 40,071,039</u>	<u>\$ (8,078,352)</u>	<u>\$ (48,671)</u>	<u>\$ 31,944,016</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 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. Effective July 1, 2006, Solid Waste (formerly know as Hopkinsville Sanitation) became a component unit of 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</u> <u>Funding</u>
Airport Board	\$ 38,000
Planning Commission	296,960
Recreation Commission	250,000
Library Board	160,000
Emergency Operations	
Communications Center	595,000

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 Hopkinstown 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.

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 fixed assets, and transfers of funds to and from other governmental units.

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

1. Summary of Significant Accounting Policies, continued

B. Basis of Presentation, continued:

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.

Miscellaneous Grants Fund – The Miscellaneous 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 fund 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, UDAAG Fund, Road Construction Grant, Home Grant Fund, Drug Enforcement Fund, TIF Fund, General Liability Insurance Contingency Fund, Inner City REZ Fund, Cable TV Work Order, and Gander Park Maintenance 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

The 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. This fund was established in 2007.

Parks and Cemeteries Fund – The Parks and Cemeteries 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, parks 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 that 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.

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 government-wide statements are presented; therefore, government 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, 2007.

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 \$48,671 exists for the Storm Water resulting from start-up operations prior to receipt of revenues (storm water assessment fees did not begin until February 2007). It is expected that an entire year of storm water assessment fees will provide positive net assets.

A net asset deficit of \$8,078,352 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. Effective July 1, 2006, Solid Waste began operations as a separate entity from the City of Hopkinsville. The assets and related liabilities were transferred from the Sanitation department of the City to the Solid Waste Component Unit in the amount of \$7,995,514.

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

1. Summary of Significant Accounting Policies, continued

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.

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 \$4,605,273 and the bank balance was \$4,733,121. 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, 2007, 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 \$6,871,682 and the bank balance was \$1,971,237. 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 Storm Water's deposits was \$120,128 and the bank balance was \$125,874. Of the bank balance, \$100,000 was covered by Federal Depository Insurance, and \$25,874 was collateralized and insured. Therefore, as of June 30, 2007, the Storm Water did not have any deposited funds exposed to custodial credit risk.

At year-end, the carrying amount of the Solid Waste's deposits was \$2,035,783 and the bank balance was \$2,322,873. Of the cash balance, \$104,794 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, 2007, the Solid Waste 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:

Investments as of June 30, 2007					
Average Credit Quality/Rating	Fair Value (Primary Gov't)	Fair Value (Pension Trust Fund)	Average Maturity		
Aaa	\$ 84	\$ -	31 Days	BB&T US Treasury Money Market Fund	
A1-P1	41,147	35,400	51 Days	BB&T Prime Money Market Fund	
AAA	241,174	-	6.89 Years	BB&T Intermediate US Gov't Fund	
AAA	46,863	-	3.70 Years	BB&T Short US Gov't Fund	
AA	235,284	478,360	4.75 Years	BB&T Total Return Bond Fund	
AA	43,076	-	8.53 Years	Dodge & Cox Income Fund	
AAA	77,164	-	6.89 Years	Federated Total Return Gov't Fund	
AAA	-	119,746	11.14 Years	Legg Mason Western Asset Non-US Opp Bond	
AAA	24,224	-	3.70 Years	Federated US Gov't Securities Fund	
	<u>\$ 709,016</u>	<u>\$ 633,506</u>		Total	

The investments for Solid Waste consisted of the following:

Investments as of June 30, 2007					
Average Credit Quality/Rating	Carrying Value	Fair Value	Average Maturity		
n/a	\$ 2,050,000	\$ 2,050,000	n/a	Repurchase Agreement First American Government Obligation Fund	
AAA	<u>197,819</u>	<u>\$ 2,247,819</u>	23 days	Total	

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, 2007, 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	\$ 974,752
Depreciation	1,309,029
Equipment replacement	773,682
Construction	6,247,071
Unemployment	22,430
Total restricted assets	<u>\$ 9,326,964</u>
The balance of the Solid Waste's restricted asset account is:	
Landfill closure costs	<u>\$ 2,255,313</u>

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, 2007, was \$.239 real and \$.251 personal per \$100, which means that the City has a tax margin of approximately \$1.261 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, 2007, was as follows:

<u>Governmental Activities</u>	<u>Capital Assets Not Being Depreciated:</u>	<u>Construction in Progress</u>	<u>Capital Assets Being Depreciated:</u>	<u>Less Accumulated Depreciation:</u>	<u>Buildings & Improvements</u>	<u>Equipment</u>	<u>Infrastructure</u>	<u>Land Improvements</u>	<u>Vehicles</u>	<u>Total</u>	<u>Deletions represent a disposition of surplus assets sold or no longer in use.</u>	<u>Depreciation expense was charged to governmental functions as follows:</u>
Balance July 1, 2006	Additions	Deletions	June 30, 2007	Balance July 1, 2006	Additions	Deletions	June 30, 2007	Balance July 1, 2006	Additions	Deletions	June 30, 2007	Balance July 1, 2006
\$ 1,615,621	\$ 140,000	\$ -	\$ 1,755,621	\$ 2,057,289	\$ 153,886	\$ 2,057,289	\$ 153,886	\$ 1,615,621	\$ 140,000	\$ -	\$ 1,755,621	\$ 1,615,621
5,135,674	406,590	-	5,542,264	4,911,265	733,479	121,042	5,523,702	13,370,750	798,023	-	14,168,773	13,370,750
3,346,537	72,504	-	3,419,041	3,346,537	72,504	-	3,419,041	6,243,641	648,942	-	6,892,583	6,243,641
1,720,192	268,318	253,209	1,735,301	1,720,192	268,318	253,209	1,735,301	2,531,774	448,742	119,417	2,861,099	2,531,774
1,971,561	127,416	-	2,098,977	1,971,561	127,416	-	2,098,977	620,447	100,916	-	721,363	620,447
1,209,053	175,041	253,209	1,130,885	1,209,053	175,041	253,209	1,130,885	-	-	-	-	-
\$ 19,580,852	\$ 1,071,743	\$ 2,058,914	\$ 18,593,681	\$ 19,580,852	\$ 1,071,743	\$ 2,058,914	\$ 18,593,681	\$ 19,580,852	\$ 1,071,743	\$ 2,058,914	\$ 18,593,681	\$ 19,580,852
General Government	\$ 178,044	333,030	813,530	Community Development	176,453	-	-	-	-	-	-	-
Public Safety	333,030	-	-	-	-	-	-	-	-	-	-	-
Public Works	813,530	-	-	-	-	-	-	-	-	-	-	-
Total Depreciation Expense	\$ 1,501,057	-	-	-	-	-	-	-	-	-	-	-

**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, 2007, is as follows:

Enterprise Fund Activities				
Balance July 1, 2006	Additions	Deletions	Balance June 2007	
Capital Assets Not Being Depreciated:				
\$ 260,159	\$ -	\$ -	\$ 260,159	Land
Capital Assets Being Depreciated:				
164,402	3,787,223	-	3,951,625	Buildings and improvements
159,794	170,720	42,069	288,445	Equipment
66,853	-	-	66,853	Vehicles
Less Accumulated Depreciation:				
106,828	20,270	-	127,098	Buildings and improvements
102,749	17,688	40,982	79,455	Equipment
46,949	5,982	-	52,931	Vehicles
\$ 394,682	\$ 3,914,003	\$ 1,087	\$ 4,307,598	Total

Depreciation expense (including amortization of capitalized assets) of the enterprise funds for the year ended June 30, 2007, was \$43,939.

A summary of Commission enterprise fund property, plant and equipment at June 30, 2007, is as follows:

Enterprise Fund Activities				
Balance July 1, 2006	Additions	Deletions	Balance June 2007	
Capital Assets Not Being Depreciated:				
\$ 851,661	\$ 30,073	\$ -	\$ 881,734	Land
Capital Assets Being Depreciated:				
85,360,308	1,593,621	-	86,953,929	Buildings and improvements
7,579,431	529,533	51,585	8,057,379	Equipment
635,125	22,561	9,990	647,696	Vehicles
Less Accumulated Depreciation:				
36,460,403	2,025,017	-	38,485,420	Buildings and improvements
5,259,002	387,773	51,585	5,595,190	Equipment
538,854	38,986	9,990	567,850	Vehicles
\$ 58,542,979	\$ 21,286,053	\$ -	\$ 79,829,032	Total

**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, 2007, was \$2,451,776. A summary of Solid Waste enterprise fund property, plant and equipment at June 30, 2007, is as follows:

<u>Enterprise Fund Activities</u>	<u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 615,582	\$ -	\$ -	\$ 615,582

Capital Assets Being Depreciated:	646,552	-	-	646,552
Buildings and Improvements	4,508,835	581,376	-	5,090,211
Equipment				

Less Accumulated Depreciation:	530,363	20,927	-	551,290
Buildings and Improvements	3,680,511	223,711	-	3,904,222
Equipment				

Total	\$ 1,560,095	\$ 336,738	\$ -	\$ 1,896,833
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Depreciation expense for Solid Waste for the year ended June 30, 2007, was \$244,638.

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.

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.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. Employee Retirement Systems, continued

(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 13.19% of annual covered payroll for nonhazardous and 28.21% 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, 2007, 2006, and 2005, was \$2,212,033, \$1,993,554, and \$1,605,354, respectively, equal to the required contribution for these years. The commission's contribution to CERS for the three years ended June 30, 2007, 2006, and 2005, was \$316,358, \$264,839, and \$184,789 respectively, is equal to the required contribution for these years. The Solid Waste's contributions to CERS for the one year ended June 30, 2007 was \$191,729, equal to the required contribution for this year.

(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.

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.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. Employee Retirement Systems, continued

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.

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:

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

6. Employee Retirement Systems, continued

Annual required contribution			
Interest on net pension obligation			
Adjustment to annual required contribution			
Annual pension cost			
Contributions made			
Decrease in net pension obligation			
Net pension obligation beginning of year			
Net pension obligation end of year			
			\$1,432,454
			<u>1,475,079</u>
			(42,625)
			<u>(412,537)</u>
			369,912
			<u>(218,999)</u>
			88,505
			\$ 500,406
Annual required contribution			
Interest on net pension obligation			
Adjustment to annual required contribution			
Annual pension cost			
Contributions made			
Decrease in net pension obligation			
Net pension obligation beginning of year			
Net pension obligation end of year			
Fiscal Year			
Ending			
6/30/05	352,877		
6/30/06	379,892		
6/30/07	369,912		
Annual Pension Cost (APC)			
Percentage of APC			
Contributed			
125%			
116%			
112%			
1,489,451			
1,475,079			
1,432,454			
Net Pension Obligation			

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, 2007, consists of the following individual fund receivables and payables:

Fund		
Receivable	Payable	
General Fund		\$355,512
Miscellaneous Grant Fund		\$256,970
Other Nonmajor Funds		\$ 98,542

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, 2007, the City of Hopkinsville had one material contract pending, the Boys and Girls Club room addition. The total expenditures for the contract at the end of the year were \$63,679 with \$39,956 remaining for the contract.

9. Short-Term Debt

The City of Hopkinsville issued no short-term debt during the year ended June 30, 2007.

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

9. Short-Term Debt, continued

The Storm Water has a short-term liability of \$95,000 from the City of Hopkinsville's UDAG Revolving Loan Fund for pre-funding of operating expenses for the Storm Water, which is due immediately upon receipt of bond proceeds. The interest rate on this loan is 2%.

The Storm Water also has a short-term liability of \$150,000 from the City of Hopkinsville for operating expenses. The City has authorized the Storm Water 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 or bond proceeds. The interest rate on this loan is 1%.

During the year ended June 30, 2007, the following changes occurred in short-term liabilities:

	Principal Outstanding July 1, 2006	Additions	Reductions	Principal Outstanding June 30, 2007
UDAG Revolving Loan	\$ 95,000	\$ -	\$ -	\$ 95,000
City of Hopkinsville Loan	-	150,000	-	150,000
Total	\$ 95,000	\$150,000	\$ -	\$ 245,000

Total interest expense for 2007 was \$2,901, of which all was expensed.

10. Long-Term Obligations

During the year ended June 30, 2007, the following changes occurred in long-term liabilities:

	Principal Outstanding July 1, 2006	Additions	Reductions	Principal Outstanding June 30, 2007	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 1,137,066	\$ 130,153	\$ 71,459	\$ 1,195,760	\$ 179,364*
Net Pension Obligation	1,475,079	-	42,625	1,432,454	-
General Obligation Bond	7,476,663	-	405,434	7,071,229	535,522
Notes Payable	1,460,604	-	96,123	1,364,481	97,515
Total Governmental Activities	\$ 11,549,412	\$ 130,153	\$ 615,641	\$ 11,063,924	\$ 812,401

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

10. Long-Term Obligations, continued

Business Type	Principal Outstanding July 1, 2006	Additions	Reductions	Principal Outstanding June 30, 2007	Due Within One Year
Business Type Activities-City:					
Compensated Absences	\$ 26,757	\$ 8,365	\$ -	\$ 35,122	\$ -

Business Type Activities-Commission:

Revenue Bonds	\$ 29,738,215	\$ -	\$ 1,945,098	\$ 27,793,117	\$ 1,993,117
Notes Payable	19,238,340	3,044,979	1,129,194	21,154,125	1,159,048

Total Business Type Activities-Commission

	\$ 48,976,555	\$ 3,044,979	\$ 3,074,292	\$ 48,947,242	\$ 3,152,165
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Business Type Activities-Solid Waste:

Compensated Absences	\$ 149,398	\$ 1,712	\$ 1,735	\$ 149,375	\$ 22,406
Capital Leases	-	360,638	-	360,638	114,510
Accrued Landfill Closing Costs	13,520,710	385,558	-	13,906,268	50,000

Total Business Type Activities-Solid Waste

	\$ 13,670,108	\$ 747,908	\$ 1,735	\$ 14,416,281	\$ 186,916
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Total Business Type Activities-Component Units

	\$ 62,646,663	\$ 3,792,887	\$ 3,076,027	\$ 63,363,523	\$ 3,339,081
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*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:

Governmental Activities:
None

Business Type Activities-Commission:

Water Sewer Facilities-1993-\$4,075,000	10/01/2007	3.54% to 4.86%	\$ 408,117
Water Sewer Facilities-2002-\$5,080,000	10/01/2007	1.50% to 3.40%	915,000
Water Sewer Facilities-2005A-\$25,635,000	10/01/2026	3.375% to 4.00%	25,085,000
Water Sewer Facilities-2005B-\$1,545,000	10/01/2017	3.00% to 3.625%	1,385,000
Total			\$ 27,793,117

**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:

Fiscal Year	Governmental	Business Type Activities	Interest
Ending June 30	Activities	Commission	Interest
2008	-	\$ 1,993,115	\$ 1,024,084
2009	-	1,095,000	969,277
2010	-	1,140,000	932,031
2011	-	1,175,000	893,452
2012	-	1,215,000	852,943
2013-2017	-	6,785,000	3,552,549
2018-2022	-	7,355,000	2,166,100
2023-2026	-	7,035,002	576,900
Total		\$ 27,793,117	\$ 10,967,336

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.

Governmental Activities:	Matures	Rate	2007
Kentucky League of Cities Funding GO, 2003 Series A - \$538,000	08/01/2008	2%-2.7%	\$ 382,000
Kentucky League of Cities Funding GO, 2003 Series B - \$1,034,000	08/01/2017	4%-5.3%	869,000
Kentucky League of Cities Funding 2006 Series A - \$1,250,000	03/01/2016	3%-3.75%	1,111,711
Kentucky League of Cities Fund 2006 Series A - \$4,910,000	04/01/2026	3.5%-3.75%	4,708,518

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, 2007, was:

Governmental Activities:	Matures	Rate	2007
Kentucky League of Cities Pooled Lease Financing - \$1,975,000	2019	3.27%	\$ 1,364,481

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

10. Long-Term Obligations, continued

Business Type Activities-Commission:			
KIA Fund A Wastewater - \$9,190,530	2016	1.2%	4,418,274
KIA Fund B Water Plant - \$5,000,000	2026	1.9%	3,485,757
KIA Fund A Phase II - \$3,167,272	2018	1.8%	1,895,717
KIA Fund A Water - \$240,264	2017	1.2%	127,330
KIA Fund A - \$614,521	2020	0.4%	411,287
KIA Fund A Phase III - \$834,891	2021	3.8%	628,811
KIA Fund A Phase IV - \$4,583,635	2026	1.0%	4,384,021
City of Hopkinsville - \$120,000	undetermined	n/a	114,058
City of Crofton - \$484,010	2009	5.00%	109,756
Matures		Rate	2007

Additionally, the Commission has open KIA loans for which draws are being taken against construction projects. At June 30, 2007, 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:

Fiscal Year	Ending June 30	Governmental	Interest	Enterprise Fund	Interest
2008	\$ 633,036	\$ 317,831	\$ 3,152,165	\$1,249,981	
2009	649,515	294,449	2,272,333	1,176,891	
2010	475,569	273,626	2,276,982	1,120,972	
2011	495,466	254,167	2,328,108	1,066,263	
2012	515,592	234,233	2,384,503	1,009,359	
2013-2017	2,701,595	839,362	12,060,770	4,083,343	
2018-2022	1,720,705	380,647	10,010,236	2,393,846	
2023-2026	1,244,232	93,570	8,768,973	631,204	
Deceased 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, 2007, \$1,480,000 bonds outstanding for the City are considered defeased. On June 30, 2007, the amount of bonds outstanding for the Commission considered defeased is undeterminable.

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

10. Long-Term Obligations, continued

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 and Commission do not have any capital leases at year-end. 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, 2007:

2007	\$ 360,638	Total
	(30,053)	Less accumulated depreciation
	<u>\$ 330,585</u>	

The future minimum lease obligations as of June 30, 2007 were as follows:

Year Ending	June 30	2008	2009	2010
Total Lease	Payments	\$ 132,181	132,181	132,181
Less Imputed	Interest	\$ 17,671	12,060	6,174
Present Value	of Minimum	\$ 114,510	120,121	126,007
	Lease Payments	<u>\$ 360,638</u>		

12. Intertund 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.

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

12. Interfund Transfers, continued

Interfund transfers for the year ended June 30, 2007, consisted of the following:

Transfer From:					
Miscellaneous	Grants	Cemetery	Business-	Nonmajor	
Fund	Fund	Fund	Type	Governmental	Total
General					
\$ 35,209	\$ -	\$ -	\$ -	\$ -	\$ 35,209
Miscellaneous Grants					
-	32,000	8,825	-	807,178	848,003
Tie Breaker Family Fund					
309,456	-	-	-	-	309,456
Cemetery Fund					
275,000	-	-	-	34,133	309,133
Nonmajor Business-Type					
200,000	-	-	-	-	200,000
Nonmajor Governmental					
639,603	11,000	-	-	11,338	661,941
Total	\$ 1,459,268	\$ 43,000	\$ 8,825	\$ -	\$ 1,459,268
Non-cash transfers (equipment purchased) consisted of the following:					
Transfers from Nonmajor Governmental Fund to:					
General Fund					
Parks and Cemeteries Fund					
Total non-cash transfers					
\$ 712,093					

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:

Due from	Miscellaneous	Grants Fund	Due from	General Fund
General Fund				
\$ 74,165	\$ 256,970	\$ 98,542	\$ 256,970	
Police Incentive Fund				
Road Construction Grants				
Miscellaneous Grants				
24,377				
256,970				

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

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.

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

14. Claims and Judgments, continued

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 loss, including workers' 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.

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

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

17. Risk Management, continued

coverage. At June 30, 2007, the claims liability was \$41,027. Changes in the claims liability during the last two years are as follows:

Balance at Beginning of Fiscal Year	Claims and Changes in Estimates	Claims Payments	Balance at End of Fiscal Year
2005-2006	\$ 175,907	\$1,374,111	\$ 1,446,241
2006-2007	103,777	1,194,615	1,257,365
			\$ 103,777
			41,027

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. A separate landfill section has operated 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 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 \$13,906,268 reported as Solid Waste landfill closure and postclosure care liability at June 30, 2007, represents the cumulative amount reported to date based on the use of approximately 98 percent of the capacity of the landfill. These amounts are based on what it would cost to perform all closure and postclosure care in 2007 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 \$14,137,938, leaving \$231,670 remaining to be recognized. The remaining life of the current landfill is estimated to be one year. 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.

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 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, \$2,255,313 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.

**CITY OF HOPKINSVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
POLICE AND FIREMEN DEFINED BENEFIT PENSION TRUST
June 30, 2007**

1. SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -entry age (b)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll (b-a)/c
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

Fiscal Year	Annual Required Contribution	Contributed Percentage
2003	464,234	86.8%
2004	500,406	76.8%
2005	500,406	87.9%
2006	500,406	88.1%
2007	500,406	82.4%

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, 2007**

Variance with Final Budget Positive (Negative)	Budgeted Amounts					
	Original	Final	Actual	Original	Final	Actual
REVENUES						
Taxes	\$ 3,683,000	\$ 3,683,000	\$ 3,910,313	\$ 227,313	\$ 54,084	8,413
Licenses and permits	14,084,500	14,084,500	14,138,584	54,084	21,012	-
Fines and forfeits	14,500	14,500	22,913	8,413	113,397	113,557
Intergovernmental	410,000	428,865	449,877	21,012	125,000	340,700
Charges for services	-	-	-	-	125,000	125,000
Interest	-	-	-	-	595,300	595,300
Other revenues	340,700	595,300	708,857	113,557	19,468,941	537,776
Total Revenues	18,657,700	18,931,165	19,468,941	537,776		
EXPENDITURES						
Current:						
General Government:						
Administrative	2,220,701	2,251,701	2,085,548	166,153	163,414	37,478
Tax Department	563,138	652,337	488,923	163,414	284,342	5,177,252
Legislative	313,350	321,820	284,342	37,478	5,169,836	5,133,548
Public safety:						
Police	5,169,836	5,232,086	5,177,252	54,834	5,133,548	1,007,168
Fire	5,133,548	5,193,548	4,824,731	368,817	1,007,168	176,678
Other	1,007,168	1,007,168	1,007,168	-	1,071	15,306
Public works:						
Administrative	168,749	177,749	176,678	1,071	15,306	153,055
Street	1,027,436	1,147,922	1,132,616	15,306	762,871	561,366
Other	915,000	915,926	762,871	153,055	2,760,008	57,249
Service center	563,349	567,759	561,366	6,393	2,440,104	501,557
Community development	2,440,104	2,817,257	2,760,008	57,249	501,557	416,215
Debt service:						
Principal	501,557	501,557	501,557	-	256,628	20,019,688
Interest & finance charges	411,115	416,215	256,628	159,587	20,435,051	21,203,045
Total expenditures	20,435,051	21,203,045	20,019,688	1,183,357	(1,777,351)	(2,271,880)
Excess of revenues over expenditures	(1,777,351)	(2,271,880)	(550,747)	1,721,133		
OTHER FINANCING SOURCES (USES)						
Sale of fixed assets	35,000	35,000	35,237	237		
Bond proceeds	-	-	-	-		
Transfers in	500,000	842,360	848,003	5,643		
Transfers out	(850,000)	(1,593,519)	(1,459,268)	134,251		
Total other financing sources (uses)	(315,000)	(716,159)	(576,028)	140,131		
Net change in fund balance	(2,092,351)	(2,988,039)	(1,126,775)	1,861,264		
Fund balance beginning of year	4,945,524	4,945,524	4,945,524	-		
Fund balance end of year	\$ 2,853,173	\$ 1,957,485	\$ 3,818,749	\$ 1,861,264		

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)
ON BUDGETARY ACCOUNTING AND CONTROL
For the Year Ended June 30, 2007**

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 expenditures and other financing uses over revenues and other financing sources (budgetary basis)	\$ (1,126,775)
---	----------------

Adjustments:

To adjust expenditures for salary accruals	(159,104)
To adjust revenues for tax and license accruals	(54,180)

Excess of expenditures and other financing uses over revenues and other financing sources (GAAP basis)	<u>\$ (1,340,059)</u>
--	-----------------------

**City of Hopkinsville, Kentucky
Other Supplementary Information
Budgetary Comparison Schedule
Municipal Road Aid Special Revenue Fund
For the Year Ended June 30, 2007**

Variance with Final Budget		Budgeted Amounts		Positive (Negative)	
		Original	Final	Actual	
REVENUES					
Intergovernmental	\$ 485,000	\$ 485,000	\$ 469,911	\$ (15,089)	
Other	-	-	-	-	
Interest	5,000	5,000	25,955	20,955	
Total Revenues	490,000	490,000	495,866	5,866	
EXPENDITURES					
Public works	769,590	769,590	501,137	268,453	
Total expenditures	769,590	769,590	501,137	268,453	
Excess of revenues over expenditures	(279,590)	(279,590)	(5,271)	274,319	
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	
Transfers out	-	-	-	-	
Total other financing sources (uses)	-	-	-	-	
Net change in fund balance	(279,590)	(279,590)	(5,271)	274,319	
Fund balance beginning of year	398,511	398,511	398,511	-	
Fund balance end of year	\$ 118,921	\$ 118,921	\$ 393,240	\$ 274,319	

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

ASSETS			
Pooled cash and cash equivalents	\$ 862,154	\$ 289,373	\$ -
Non-pooled cash and cash equivalents	23,042	-	18,189
Investments	369,792	-	297,990
Loans receivable	286,852	-	-
Due from component unit	209,291	-	-
Other receivables	24,377	-	-
Total assets	\$ 1,775,508	\$ 289,373	\$ 316,179
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Interfund payables	\$ 98,542	\$ -	\$ -
Total liabilities	98,542	-	-
FUND BALANCES			
Reserved for encumbrances	268,443	-	-
Reserved for long-term loans	496,143	-	-
Reserved for legal restrictions	-	56,239	-
Unreserved, undesignated, reported in:			
Special revenue funds	912,380	-	-
Capital project funds	-	233,134	-
Permanent fund	-	-	316,179
Total fund balances	1,676,966	289,373	316,179
Total liabilities and fund balances	\$ 1,775,508	\$ 289,373	\$ 316,179

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
REVENUES			
Intergovernmental	\$ -	\$ -	\$ 1,250,533
Investment income	1,403	-	61,466
Other	-	25,695	100,849
Total revenues	1,403	25,695	1,412,848
EXPENDITURES			
General government	41,638	-	1,745,572
Public safety	478,133	-	478,133
Public works	501,137	-	501,137
Community development	630,291	-	630,291
Total expenditures	1,651,199	-	3,355,133
Excess of revenues over (under) expenditures	(265,449)	(1,702,531)	(1,942,285)
OTHER FINANCING SOURCES (USES)			
Transfers in	661,941	-	661,941
Transfers out	(18,858)	-	(852,649)
Total other financing sources (uses)	643,083	-	(190,708)
Net change in fund balances	377,634	25,695	(2,132,993)
Fund balances beginning of year	1,299,332	290,484	4,415,511
Fund balances end of year	\$ 1,676,966	\$ 316,179	\$ 2,282,518

City of Hopkinsville, Kentucky
Combining Balance Sheet
Normal Special Revenue Funds
June 30, 2007

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Home Grant	Drug Enforcement	Road Construction Grants	Expendable Trust Funds	TIF Fund	Inner City REZ	Cable TV Work Order	Gander Park - Maintenance	General Liability Insurance Contingency	Total Normal Special Revenue Funds
ASSETS															
Pooler cash and cash equivalents	\$ 393,240	-	-	\$ 13,719	\$ 47,752	\$ 4,994	\$ 44,568	-	\$ 23,042	\$ 594	\$ 194,888	\$ 31,980	\$ 18,738	\$ 111,681	\$ 862,154
Non-pooled cash and cash equivalents	-	-	-	-	-	-	-	-	369,792	-	-	-	-	-	23,042
Investments	-	-	-	-	286,852	-	-	-	-	-	-	-	-	-	369,792
Loans receivable	-	-	-	-	209,291	-	-	-	-	-	-	-	-	-	286,852
Due from component unit	-	-	-	-	-	-	-	24,377	-	-	-	-	-	-	209,291
Other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,377
Total assets	\$ 393,240	-	-	\$ 13,719	\$ 543,895	\$ 4,994	\$ 44,568	\$ 24,377	\$ 392,834	\$ 594	\$ 194,888	\$ 31,980	\$ 18,738	\$ 111,681	\$ 1,775,508
LIABILITIES AND FUND BALANCES															
LIABILITIES															
Interfund payables	\$ -	-	\$ 74,165	-	-	-	-	\$ 24,377	-	-	-	-	-	-	\$ 98,542
Total liabilities	-	-	74,165	-	-	-	-	24,377	-	-	-	-	-	-	98,542
FUND BALANCES															
Reserved for encumbrances	268,443	-	-	-	-	-	-	-	-	-	-	-	-	-	268,443
Reserved for long-term loans	-	-	-	-	496,143	-	-	-	-	-	-	-	-	-	496,143
Unreserved, undesignated, reported in:															
Special revenue funds	124,797	-	(74,165)	13,719	47,752	4,994	44,568	-	392,834	594	194,888	31,980	18,738	111,681	912,380
Total fund balances	393,240	-	(74,165)	13,719	543,895	4,994	44,568	-	392,834	594	194,888	31,980	18,738	111,681	1,676,966
Total liabilities and fund balances	\$ 393,240	\$ -	\$ -	\$ 13,719	\$ 543,895	\$ 4,994	\$ 44,568	\$ 24,377	\$ 392,834	\$ 594	\$ 194,888	\$ 31,980	\$ 18,738	\$ 111,681	\$ 1,775,508

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Home Grant	Drug Enforcement	Road Construction Grants	Expendable Trust Funds	TIF Fund	Inner City REZ	Cable TV Work Order	Gander Park - Maintenance	General Liability Insurance Contingency	Total Nonmajor Special Revenue Funds
REVENUES															
Intergovernmental	\$ 489,811	\$ 324,579	\$ 217,009	\$ 239,034	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,250,533
Investment income	25,955	-	-	-	-	-	41,154	-	34,108	-	-	34,000	-	-	60,063
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	75,154
Total revenues	495,866	324,579	217,009	239,034	-	-	41,154	-	34,108	-	-	34,000	-	-	1,385,750
EXPENDITURES															
General government	-	-	-	-	-	-	-	-	9,290	-	-	32,348	-	-	41,638
Public safety	-	-	217,107	239,184	-	-	21,842	-	-	-	-	-	-	-	478,133
Public works	501,137	-	-	-	-	-	-	-	-	-	305,112	-	-	-	501,137
Community development	-	324,579	-	-	-	-	-	-	-	-	-	-	600	-	630,291
Total expenditures	501,137	324,579	217,107	239,184	-	-	21,842	-	9,290	-	305,112	32,348	600	-	1,651,199
Excess of revenues over (under) expenditures	(5,271)	-	(89)	(150)	-	-	19,312	-	24,818	-	(305,112)	1,652	(600)	-	(265,449)
OTHER FINANCING SOURCES (USES)															
Transfers in	-	-	-	-	-	-	-	-	-	594	500,000	30,328	19,338	111,681	661,941
Transfer out	-	-	(18,858)	-	-	-	-	-	-	-	-	-	-	-	(18,858)
Total other financing sources (uses)	-	-	(18,858)	-	-	-	-	-	-	594	500,000	30,328	19,338	111,681	643,083
Net change in fund balances	(5,271)	-	(18,956)	(150)	-	-	19,312	-	24,818	594	194,888	31,980	18,738	111,681	377,634
Fund balances beginning of year	398,511	-	(55,209)	13,899	643,895	4,994	25,256	-	368,016	-	-	-	-	-	1,299,332
Fund balances end of year	\$ 393,240	\$ -	\$ (74,165)	\$ 13,749	\$ 643,895	\$ 4,994	\$ 44,568	\$ -	\$ 392,834	\$ 594	\$ 194,888	\$ 31,980	\$ 18,738	\$ 111,681	\$ 1,676,966

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2007**

ASSETS			
Pooled cash and cash equivalents	\$ 56,239	\$ 233,134	\$ 289,373
Non-pooled cash and cash equivalents	-	-	-
Loans receivable	-	-	-
Total assets	<u>\$ 56,239</u>	<u>\$ 233,134</u>	<u>\$ 289,373</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Total liabilities	\$ -	\$ -	\$ -
FUND BALANCES			
Reserved for encumbrances	-	-	-
Reserved for legal restrictions	56,239	-	56,239
Unreserved, undesignated, reported in:	-	233,134	233,134
Capital project funds	-	233,134	233,134
Total fund balances	<u>56,239</u>	<u>233,134</u>	<u>289,373</u>
Total liabilities and fund balances	<u>\$ 56,239</u>	<u>\$ 233,134</u>	<u>\$ 289,373</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, 2007

REVENUES		
Investment income	\$ -	\$ 1,403
Total revenues	-	1,403
EXPENDITURES		
General government	-	1,703,934
Total expenditures	-	1,703,934
Excess of revenues over (under) expenditures	-	(1,702,531)
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(833,791)	(833,791)
Total other financing sources (uses)	(833,791)	-
Net change in fund balances	(833,791)	(1,702,531)
Fund balances beginning of year	890,030	1,935,665
Fund balances end of year	\$ 56,239	\$ 233,134
		\$ 289,373

CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

Grantor and Program Title	CFDA Number	Grantor Number	Expenditures
U. S. Department of Housing and Urban Development			
Community Development			
Block Grant - Entitlement	14.218	B01-MC-210002	\$ 324,580 *
Department of Homeland Security			
Hazard Mitigation Program	97.039	PON2-095-0600002920-1	39,221
Passed through Kentucky			
Division of Emergency Management			
Pre-Disaster Mitigation Grant	97.017	PON2-095-0600002963-1	170,408
Passed through Kentucky			
Division of Emergency Management			
Homeland Security Grant Program FFY06	97.067	PO2-094-0600003529-1	74,571
Passed through Kentucky Office of Homeland Security			
U.S. Department of Justice			
Community Oriented Policing Services	16.710	96UMXWX0141	3,822
Community Oriented Policing Services	16.710	2005SHWX0005	81,670
Justice Assistance Grant	16.738		11,153
Justice Assistance Grant	16.738		6,727
U.S. Department of Interior			
Little River Park Fountain	15.916	LWCF Project No. 21-01280	27,514
(Passed through Kentucky Dept for Local Government			
Walnut Street Park Grant	15.916	LWCF Project No. 21-01167	1,631
(Passed through Kentucky Dept for Local Government			
U.S. Department of Transportation			
Surface Transportation Program			
Passed through Kentucky			
Transportation Cabinet:			
ISTEA Grant-Sidewalk/Streetscape Improvements	20.205	C-02262574	11,741
Jeffers Bend Walking Trail	20.205	C-03149766	35,981
Highway Safety Grant	20.600	AL-07-23	4,000
(Passed through Kentucky State Police)			
Total Federal Expenditures			\$ 793,019

* 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	\$ 44,309



& CO. - HOPKINSVILLE, LLP

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FIRM ID # 61-1313802

**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, 2007, which collectively comprise the City of Hopkinsville, Kentucky's basic financial statements and have issued our report thereon dated December 28, 2007. 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, the audit committee, City Council, 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.

K. M. Hall + Co. - Hopkinsville, KY

Hopkinsville, Kentucky
December 28, 2007



& CO. - HOPKINSVILLE, LLP

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**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, 2007. 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.

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, 2007.

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 the audit committee, management, City Council 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.

John Paul + Co. - Hopkinsville, LLC

Hopkinsville, Kentucky
December 28, 2007

CITY OF HOPKINSVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

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 number B01-MC-210002; Grant period – year ended June 30, 2007.

None

CITY OF HOPKINSVILLE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

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