

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



**For the Year Ended
June 30, 2011**

**CITY OF HOPKINSVILLE
HOPKINSVILLE, KENTUCKY**

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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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2012, 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 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
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedule, and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic content. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hopkinsville, Kentucky's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

York, Neal & Co. - Harrison, LLC

Hopkinsville, Kentucky
January 30, 2012

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, 2011. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the financial statements (pages 15-27) provided in this document.

I. Financial Highlights

- The City's assets exceeded liabilities at the close of the fiscal year by \$26.9 million (net assets). This amount includes \$862 thousand that are restricted to specific projects by laws, regulations, or contractual agreements. A total of \$7.7 million of resources are unrestricted and are available to fund the City's outstanding obligations and future programs.
- The City's total net assets increased \$875 thousand this year. Net assets of governmental activities increased \$911 thousand and net assets of business-type activities decreased by \$36 thousand.
- As of June 30, 2011, the City's governmental funds reported combined ending fund balances of \$11.2 million, an increase of \$574 thousand from the prior year. Approximately \$7.7 million, 68.35% of this total amount, is unassigned and available for spending.
- The City's governmental activities total debt decreased overall by \$589 thousand. The debt decreased by \$1.73 million due to the repayment of debt and increased by \$1.14 million due to the issuance of new debt.

II. Overview of Financial Statements

This report was published under the standards for governmental financial reporting prescribed by the Governmental Accounting Standards Board in Statement No. 34 (GASB 34). This reporting format consists of a series of financial statements that provide an overview of all services provided by or supported by the City (the government-wide statements) and provides more detailed information about major programs of the City (fund statements).

The GASB 34 reporting model is designed to provide improved information to the reader. The statements present a financial picture of the City as a whole through the use of a consolidated statement of all funds, eliminating interfund transfers. In addition, the values of fixed assets of governmental-type operations are presented. Under prior reporting standards, the infrastructure assets for governmental-type funds were not reported nor depreciated.

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, community and economic development, and parks and recreation. Business-type activities of the City include the family aquatic center and grounds maintenance.

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

The government-wide financial statements can be found on pages 15-16 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 thirteen (13) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Grants Fund, which are considered to be major funds. Data from the other eleven (11) 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 17-20 of this report.

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

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

- that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or
- where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

b. Internal Service funds. 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 21-23 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 Firemen 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 24-25 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 28-67 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 required supplementary information. Combining and fund statements and schedules can be found on pages 72-77 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. The City as a whole had assets greater than liabilities by \$26.9 million, an increase of \$875 thousand over last year. Of the \$26.9 million, \$18.3 million or 68.0% was invested in capital assets, and \$7.73 million or 28.8% was unrestricted. Net assets of governmental activity funds total \$22.9 million, with \$14.3 million or 62.3% invested in capital assets and \$7.8 million or 34.0% unrestricted. The unrestricted net assets of governmental funds include fund balances of the General Fund and various special revenue funds. Unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors in the future.

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

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

City of Hopkinsville Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 13,452,831	\$ 13,008,630	\$ 43,379	\$ 35,713	\$ 13,496,210	\$ 13,044,343
Capital assets	<u>20,763,097</u>	<u>20,785,566</u>	<u>4,021,068</u>	<u>4,075,975</u>	<u>24,784,165</u>	<u>24,861,541</u>
Total assets	<u>\$ 34,215,928</u>	<u>\$ 33,794,196</u>	<u>\$ 4,064,447</u>	<u>\$ 4,111,688</u>	<u>\$ 38,280,375</u>	<u>\$ 37,905,884</u>
Long-term liabilities outstanding	\$ 9,603,341	\$ 10,069,544	\$ 21,993	\$ 55,732	\$ 9,625,334	\$ 10,125,276
Other liabilities	<u>1,727,461</u>	<u>1,751,112</u>	<u>65,079</u>	<u>42,247</u>	<u>1,792,540</u>	<u>1,793,359</u>
Total liabilities	<u>\$ 11,330,802</u>	<u>\$ 11,820,656</u>	<u>\$ 87,072</u>	<u>\$ 97,979</u>	<u>\$ 11,417,874</u>	<u>\$ 11,918,635</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 14,252,333	\$ 13,771,237	\$ 4,021,068	\$ 4,075,975	\$ 18,273,401	\$ 17,847,212
Restricted	862,029	833,640	-	-	862,029	833,640
Unrestricted	<u>7,770,764</u>	<u>7,368,663</u>	<u>(43,693)</u>	<u>(62,266)</u>	<u>7,727,071</u>	<u>7,306,397</u>
Total net assets	<u>\$ 22,885,126</u>	<u>\$ 21,973,540</u>	<u>\$ 3,977,375</u>	<u>\$ 4,013,709</u>	<u>\$ 26,862,501</u>	<u>\$ 25,987,249</u>

The net assets of the City's business-type activities total \$3.977 million. Of the net assets total, \$4.021 million (101.1%) was invested in capital assets with an unrestricted fund deficit balance of (\$44 thousand) (-1.1%).

A. Analysis of the City's Operations

The following table provides a summary of the City's operations for the year ended June 30, 2011. Governmental activities increased the City's net assets by \$9.12 thousand, accounting for 104% of the increase in the net assets. Business-type activities decreased the City's net assets by (\$36 thousand), which was (4%) of the total increase.

City of Hopkinsville – Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services and sales	\$ 1,774,835	\$ 1,727,617	\$ 438,516	\$ 348,073	\$ 2,213,351	\$ 2,075,690
Operating grants/contributions/interest	2,994,188	2,633,675	-	-	2,994,188	2,633,675
Capital grants/contributions	524,503	1,213,712	-	-	524,503	1,213,712
General revenues:						
Property taxes	4,625,446	4,482,152	-	-	4,625,446	4,482,152
Occupational taxes	12,519,527	11,890,073	-	-	12,519,527	11,890,073
Insurance premium tax	3,281,185	3,240,908	-	-	3,281,185	3,240,908
Franchise tax	285,939	343,592	-	-	285,939	343,592
Transient room tax	288,913	274,852	-	-	288,913	274,852
Investment income	27,900	93,867	260	159	28,160	94,026
Gain on sale of capital assets	-	-	-	-	-	-
Other	6,319	37,030	-	-	6,319	37,030
Total revenues	<u>\$ 26,328,755</u>	<u>\$ 25,937,478</u>	<u>\$ 438,776</u>	<u>\$ 348,232</u>	<u>\$ 26,767,531</u>	<u>\$ 26,285,710</u>

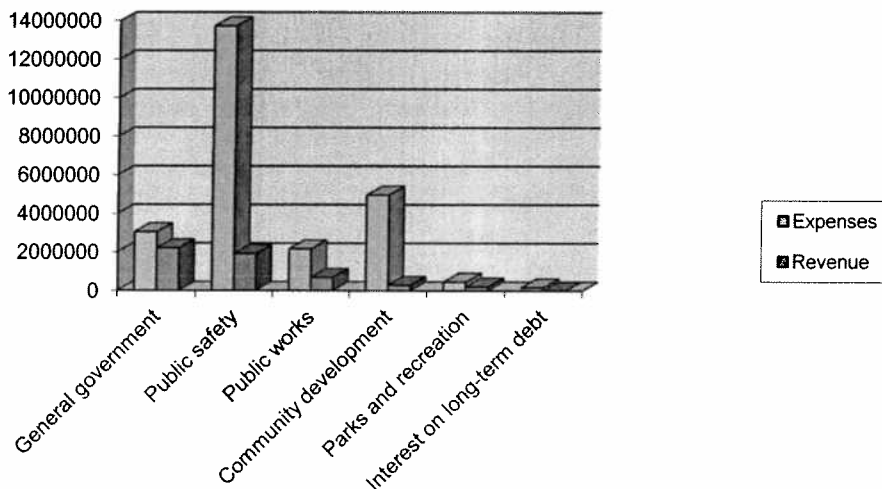
City of Hopkinsville – Changes in Net Assets, continued

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Expenses:						
General government	\$ 3,042,861	\$ 2,815,207	\$ -	\$ -	\$ 3,042,861	\$ 2,815,207
Public safety	13,738,181	12,631,362	-	-	13,738,181	12,631,362
Public works	2,159,587	2,227,919	-	-	2,159,587	2,227,919
Community development	4,951,175	5,309,180	-	-	4,951,175	5,309,180
Parks and recreation	451,955	122,470	-	-	451,955	122,470
Interest on long-term debt	171,118	154,203	-	-	171,118	154,203
Tie Breaker Family Aquatic	-	-	522,084	487,204	522,084	487,204
Grounds maintenance	-	-	855,318	780,694	855,318	780,694
Total expenses	<u>\$ 24,514,877</u>	<u>\$ 23,260,341</u>	<u>\$ 1,377,402</u>	<u>\$ 1,267,898</u>	<u>\$ 25,892,279</u>	<u>\$ 24,528,239</u>
Change in net assets before Transfers	\$ 1,813,878	\$ 2,677,137	\$ (938,626)	\$ (919,666)	\$ 875,252	\$ 1,757,471
Transfers	(902,292)	(710,000)	902,292	710,000	-	-
Increase (decrease) in net assets	911,586	1,967,137	(36,334)	(209,666)	875,252	1,757,471
Net assets – 7/1/10	<u>21,973,540</u>	<u>20,006,403</u>	<u>4,013,709</u>	<u>4,223,375</u>	<u>25,987,249</u>	<u>24,229,778</u>
Net assets – 6/30/11	<u>\$ 22,885,126</u>	<u>\$ 21,973,540</u>	<u>\$ 3,977,375</u>	<u>\$ 4,013,709</u>	<u>\$ 26,862,501</u>	<u>\$ 25,987,249</u>

Total revenues for the City's governmental activities total \$26.3 million at June 30, 2011, compared to \$25.9 million last year. Occupational taxes total \$12.5 million or 47.6% of revenue. The second largest category of government revenues, property taxes, accounts for \$4.6 million, or 17.6% of total revenues. The third largest category of government revenues, insurance premium tax, accounts for \$3.3 million, or 12.5% of revenue. Operating grants, contributions, and interest total \$3.0 million, or 11.4% of the total collections. Miscellaneous sources account for \$6 thousand, or 0.02%.

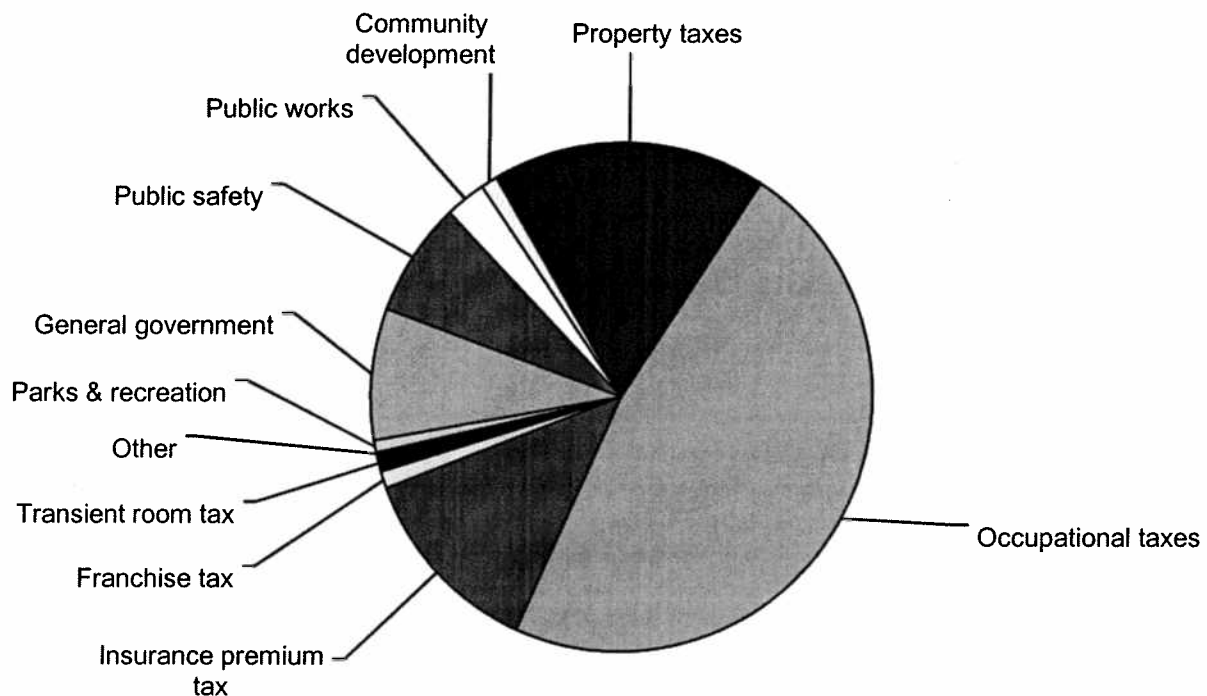
B. Governmental Activities

Expenses and Program Revenues – Governmental Activities



Current year total expenses of the City's governmental activities total \$24.5 million, compared to \$23.3 million last year. The increase is primarily a result of Public Safety wages increasing due to additional employees, a 3% cost of living adjustment given to all employees, and the increase in the employer matched retirement rates for all employees. Also contributing to the increase were increased fuel and utility costs. Public Safety expenses total \$13.7 million and account for 56.0% of total expenses. The second largest category of expenses, Community Development, totals \$5.0 million and accounts for 20.2% of expenses. General government is the next largest category and totals \$3.0 million, or 12.4% of expenses. Public Works totals \$2.2 million, or 8.8% of expenses.

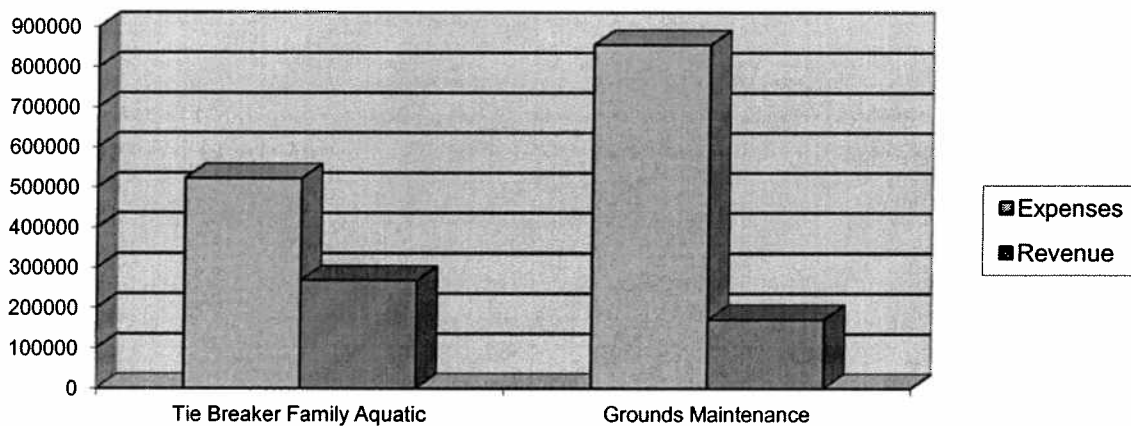
Revenue by Source – Governmental Activities



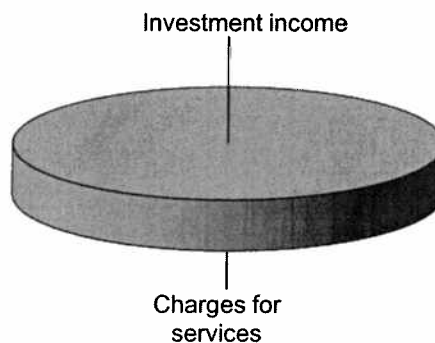
C. Business-Type Activities

Revenue for business-type activities total \$439 thousand this fiscal year compared to \$348 thousand last year. Of this, \$439 thousand or 99.9% was from charges for services and sales. Expenses for business-type activities total \$1.4 million. The largest program in the business-type activities was the operations of the grounds maintenance fund, which accounts for 62.1% of business-type expenses. The Tie Breaker Family Aquatic Park accounts for 37.9% of business-type activities.

Expenses and Revenues – Business-Type Activities



Revenue by Source – Business-Type Activities

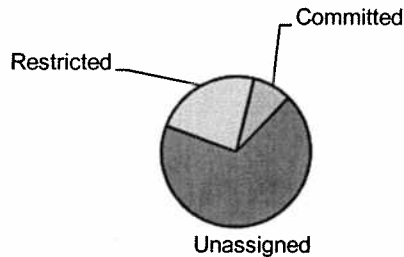


D. Governmental Funds

At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$11.19 million, an increase of \$574 thousand from the prior year. Approximately 68.4% of this total amount, \$7.65 million, is unassigned fund balance, which is available for spending at the government's discretion. Approximately 23.1%, \$2.58 million, is restricted fund balance. The remainder of fund balance, \$961 thousand, is committed to indicate it is not available for new spending because it has already been committed.

The total ending fund balance of governmental funds show an increase of \$574 thousand over the prior year. This increase is primarily the result of events and programs described within the analysis of the City's governmental activities.

Ending Fund Balances – Governmental Activities



The general fund is the chief operating fund of the City. At the end of the 2010-11 fiscal year, the total fund balance in the General Fund was \$8.5 million, which represents an increase of \$220 thousand from the prior year. Of this total, unassigned fund balance was \$7.7 million and reflected by 31.3% of General Fund revenues. As a measure of general fund liquidity, readers may compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 34.3% of total general fund expenditures of \$22.3 million, and total fund balance represents 38.3% of total general fund expenditures.

E. Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Total net assets in the proprietary funds equal to \$4.24 million as of June 30, 2011, compared to \$4.27 million last year.

The Water Park has total net assets of \$3.6 million, representing a decrease of \$129 thousand from prior year. Of the total net assets, \$3.59 million was invested in capital assets and \$0.01 million was unrestricted. This decrease is primarily the results of events and programs described within the analysis of the City's business-type activities.

The Grounds Maintenance Fund had total net assets of \$604 thousand, representing a \$105 thousand increase over last year. Of the total net assets, \$436 thousand was invested in capital assets. Unrestricted net assets was \$168 thousand. This increase is primarily the result of events and programs described within the analysis of the City's business-type activities.

IV. General Fund Budgetary Highlights

Over the course of the fiscal year, the city council approved revisions of the General Fund's budget in order to make adjustments to and add projects that were not anticipated when the budget was first adopted. The total expenditures budget increased \$906,228 or 4.3% during the year. The changes in appropriations can be briefly summarized as follows:

• \$ 62,984	increase in general administrative
• \$ -	no change in tax department
• \$ 126,176	decrease in information technology
• \$ 8,622	increase in legislative
• \$ 84,585	increase in police
• \$ 279,753	increase in fire
• \$ -	no change in other public safety
• \$ 1,701	increase in public works administrative
• \$ 8,249	increase in street
• \$ 80,168	increase in other public works
• \$ 16,567	decrease in service center
• \$ 37,602	increase in community development
• \$ 22,653	increase in parks and recreation
• \$ -	no change in debt service principal
• \$ -	no change in interest charges
• \$ 112,177	increase in debt expenditures (refunding)
• \$ 350,477	increase in capital outlays

The net increase to appropriations of \$906,228 was to be budgeted from the available fund balance. During the year, however, expenditures were less than budgetary estimates, thus lessening the need to draw upon existing fund balance.

Differences between the final appropriations budget and the actual appropriations resulted in \$858,970 decrease in actual appropriations in comparison to the budgeted appropriations. The most significant differences were due to not using all of the overtime as budgeted and hire lags in the police department, not filling a vacant position in the street department, and lower workers compensation insurance and tax rebates than budgeted.

V. Capital Asset and Debt Administration

A. Capital Assets

The City's total investment in capital assets is \$24.8 million (net of accumulated depreciation) as of June 30, 2011, which represents a decrease of \$77 thousand from prior year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, bridges, and construction in progress. For governmental activities, investments totaled \$20.8 million, a decrease of \$22 thousand. For business-type activities, investments totaled \$4.0 million, a decrease of (\$54.9 thousand).

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,615,621	\$ 1,615,621	\$ 260,159	\$ 260,159	\$ 1,875,780	\$ 1,875,780
Construction in Progress	-	-	-	-	-	-
Land improvements	3,590,588	3,385,628	54,098	54,098	3,644,686	3,439,726
Buildings	4,789,453	4,911,878	3,372,930	3,473,364	8,162,383	8,385,242
Machinery and equipment	3,293,445	3,148,868	333,880	288,354	3,627,325	3,437,222
Infrastructure	<u>7,473,990</u>	<u>7,723,571</u>	<u>-</u>	<u>-</u>	<u>7,473,990</u>	<u>7,723,571</u>
Total	<u>\$20,763,097</u>	<u>\$20,785,566</u>	<u>\$4,021,067</u>	<u>\$ 4,075,975</u>	<u>\$24,784,164</u>	<u>\$24,861,541</u>

Additional information on City capital assets can be found in Note 4 in the footnotes at pages 47-49.

B. Long-Term Debt

At year-end the City had \$7.35 million in outstanding notes and bonds compared to \$8.02 million at June 30, 2011, a decrease of \$669 thousand. The City had new debt of \$1,055,000 issued during this fiscal year to refinance the KLC lease agreement that was used for the acquisition and construction of the softball complex and fire station. The following table illustrates the changes in outstanding notes, bonds and capital leases:

	Governmental Activities	
	2011	2010
KLC General Obligation bonds	\$ 6,037,896	\$5,457,556
KLC Revenue bonds	1,187,221	1,214,306
KLC Softball Complex lease	-	1,024,466
Note payable	<u>201,422</u>	<u>319,111</u>
Total	<u>\$ 7,426,539</u>	<u>\$8,015,439</u>

The City's legal debt limit under §158 of the Kentucky Constitution is 10% of total assessed value of taxable property in Hopkinsville; therefore, the debt limit is \$161,624,879. The City's latest bond rating is AA-.

C. Types of Municipal Debt

Additional information on the City's long-term debt can be found at pages 55-60.

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 2011 was 11.9%. This rate compares unfavorably to state and federal unemployment rates, 9.7% and 9.3%, 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 2010-2011 budget for the City of Hopkinsville was prepared. The beginning general fund balance for fiscal year 2010-2011 was \$8,328,684, and has estimated an ending fund balance of \$8,862,264. 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 was scheduled to decrease in July 2009 to 1.85% but remained at 2% until January 1, 2011 when the rate changed to 1.95%.

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, 2011

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
ASSETS				
Pooled cash and cash equivalents	\$ 8,846,320	\$ 224,744	\$ 9,071,064	\$ -
Non-pooled cash and cash equivalents	721,693	83,859	805,552	3,559,968
Investments	-	-	-	-
Accounts receivable	-	-	-	1,457,952
Taxes receivable	2,087,023	-	2,087,023	-
Interest receivable	-	-	-	-
Intergovernmental receivables	93,841	-	93,841	-
Other receivables	268,876	-	268,876	635,687
Prepaid expenses	-	-	-	-
Internal balances	265,224	(265,224)	-	-
Due from component unit	155,896	-	155,896	-
Deferred charges	131,152	-	131,152	482,939
Inventory	-	-	-	277,207
Noncurrent restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	133,345	-	133,345	8,604,802
Investments	363,549	-	363,549	-
Permanently restricted assets:				
Cash and cash equivalents	82,937	-	82,937	-
Investments	302,975	-	302,975	-
Capital Assets	-	-	-	-
Land and construction in progress	1,615,621	260,159	1,875,780	15,047,254
Depreciable capital assets, net	19,147,476	3,760,909	22,908,385	87,949,044
Total capital assets	20,763,097	4,021,068	24,784,165	102,996,298
Total assets	<u>\$ 34,215,928</u>	<u>\$ 4,064,447</u>	<u>\$ 38,280,375</u>	<u>\$ 118,014,853</u>
LIABILITIES				
Accrued salaries	\$ 494,884	\$ 23,231	\$ 518,115	\$ 164,410
Accounts payable	215,884	37,967	253,851	1,457,165
Accrued liabilities	-	-	-	-
Line of credit	-	-	-	-
Claims payable	146,452	-	146,452	-
Accrued interest	18,364	-	18,364	301,050
Transient bond deposits	3,000	-	3,000	-
Construction retainage payable	-	-	-	487,014
Construction contracts payable	-	-	-	211,940
Customer deposits	-	-	-	67,348
Note payable-UDAG	-	-	-	45,000
Note payable-City	-	-	-	-
Note payable-Pennyroyal Center	-	-	-	-
Due to primary government	-	-	-	110,896
Noncurrent liabilities:				
Due within one year	653,954	-	653,954	4,260,971
Due beyond one year	8,498,776	-	8,498,776	70,353,018
Compensated absences:				
Due within one year	194,923	3,881	198,804	49,872
Due beyond one year	1,104,565	21,993	1,126,558	282,613
Total liabilities	<u>11,330,802</u>	<u>87,072</u>	<u>11,417,874</u>	<u>77,791,297</u>
NET ASSETS				
Invested in capital assets, net of related debt	14,252,333	4,021,068	18,273,401	44,572,067
Restricted for:				
Other	-	-	-	1,467,198
Perpetual care:				
Expendable	485,764	-	485,764	-
Nonexpendable	376,265	-	376,265	-
Unrestricted	7,770,764	(43,693)	7,727,071	(5,815,709)
Total net assets	<u>22,885,126</u>	<u>3,977,375</u>	<u>26,862,501</u>	<u>40,223,556</u>
Total liabilities and net assets	<u>\$ 34,215,928</u>	<u>\$ 4,064,447</u>	<u>\$ 38,280,375</u>	<u>\$ 118,014,853</u>

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

City of Hopkinsville, Kentucky
Statement of Activities
For the Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Primary Government		Component Units
				Governmental Activities	Business-Type Activities	
PRIMARY GOVERNMENT						
Governmental activities:						
General government	\$ (3,042,861)	\$ 1,738,760	\$ 461,031	\$ (843,070)	\$ -	\$ -
Public safety	(13,738,181)	27,671	1,636,299	(11,824,767)	-	-
Public works	(2,159,587)	-	670,449	(1,469,910)	-	-
Community development	(4,951,175)	8,404	58,087	(4,664,063)	-	-
Parks and recreation	(451,955)	-	168,322	(248,423)	-	-
Interest on long-term debt	(171,118)	-	-	(171,118)	-	-
Total governmental activities	(24,514,877)	1,774,835	2,994,188	(19,221,351)	-	-
Business-type activities:						
Tie Breaker Family Aquatic Grounds Maintenance	(522,084)	267,691	-	-	(254,393)	-
	(855,318)	170,825	-	-	(684,493)	-
Total business-type activities	(1,377,402)	438,516	-	-	(938,886)	-
Total - primary government	(25,892,279)	2,213,351	2,994,188	(19,221,351)	(938,886)	-
COMPONENT UNITS						
Hopkinsville Water Environment Authority	(11,618,959)	12,202,593	-	-	-	1,160,896
Hopkinsville Solid Waste Authority	(4,702,165)	4,807,259	636	-	-	105,730
Hopkinsville Surface and Stormwater	(514,116)	1,143,247	312,310	-	-	941,441
Total - component units	(16,835,240)	18,153,099	312,946	-	-	2,208,067
GENERAL REVENUES						
Property taxes				4,625,446	-	-
Occupational taxes				12,519,527	-	-
Insurance premium tax				3,281,185	-	-
Franchise tax				285,939	-	-
Transient room tax				288,913	-	-
Investment income				27,900	260	31,766
Gain (loss) on sale of capital assets				-	-	45,589
Other				6,319	-	276,084
Total general revenues				21,035,229	260	353,439
Transfers				(902,292)	902,292	-
Total general revenue & transfers				20,132,937	902,552	353,439
Change in net assets				911,586	(36,334)	2,561,506
Net assets beginning of year				21,973,540	4,013,709	37,662,050
Net assets end of year				\$ 22,885,126	\$ 3,977,375	\$ 40,223,556

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

City of Hopkinsville, Kentucky
Balance Sheet
Governmental Funds
June 30, 2011

	Major Fund		Other	Total
	General	Grants Fund	Governmental Funds	Governmental Funds
ASSETS				
Pooled cash and cash equivalents	\$ 7,474,929	\$ 134,032	\$ 1,237,359	\$ 8,846,320
Non-pooled cash and cash equivalents	25,208	-	216,282	241,490
Investments	-	-	666,524	666,524
Taxes receivable	1,634,838	-	-	1,634,838
Interest receivable	-	-	-	-
Interfund receivable	-	-	-	-
Intergovernmental receivables	25,579	-	-	25,579
Loans receivable	-	-	251,085	251,085
Due from component unit	-	-	155,896	155,896
Other receivables	-	56,205	29,848	86,053
Total assets	<u>\$ 9,160,554</u>	<u>\$ 190,237</u>	<u>\$ 2,556,994</u>	<u>\$ 11,907,785</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 113,802	\$ 72,235	\$ 29,848	\$ 215,885
Accrued salaries	494,884	-	-	494,884
Interfund payables	-	-	-	-
Bond issue cost payable	-	-	-	-
Transient bond deposits	3,000	-	-	3,000
Total liabilities	<u>611,686</u>	<u>72,235</u>	<u>29,848</u>	<u>713,769</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	118,002	2,464,014	2,582,016
Committed	897,603	-	63,132	960,735
Assigned	-	-	-	-
Unassigned	7,651,265	-	-	7,651,265
Total fund balances	<u>8,548,868</u>	<u>118,002</u>	<u>2,527,146</u>	<u>11,194,016</u>
Total liabilities and fund balances	<u>\$ 9,160,554</u>	<u>\$ 190,237</u>	<u>\$ 2,556,994</u>	<u>\$ 11,907,785</u>

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

City of Hopkinsville, Kentucky
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
For the Fiscal Year Ended June 30, 2011

Total fund balance - total governmental funds	\$ 11,194,016
Amounts reported for governmental activities in the statement of net assets are different because:	
Taxes receivable based on availability criteria; \$29,970 property taxes, \$372,104 insurance premium taxes, and \$50,112 franchise taxes.	452,186
Deferred charges - bond refinancing charges, amortizable over life of debt	131,152
Capital assets of \$40,513,136, net of accumulated depreciation of (\$19,750,039), are not financial resources and, therefore, are not reported in the funds. See note 4 for additional detail.	20,763,097
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 \$550,033 are included in governmental activities in the statement of net assets, plus \$265,224 allocated to business type activities.	815,257
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.	(10,372,333)
Premium on bond issuance is amortized over life of debt	(79,885)
Accrued interest	(18,364)
Net assets of governmental activities	<u>\$ 22,885,126</u>

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

City of Hopkinsville, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2011

	Major Fund		Other	Total
	General	Grants Fund	Governmental Funds	Governmental Funds
REVENUES				
Taxes	\$ 4,631,358	\$ -	\$ -	\$ 4,631,358
Licenses and permits	18,009,814	-	-	18,009,814
Fines and forfeits	27,671	-	-	27,671
Intergovernmental	882,528	404,317	1,280,064	2,566,909
Investment income	32,489	-	23,395	55,884
Insurance proceeds	-	-	29,555	29,555
Charges for services	-	-	-	-
Other	851,181	-	40,858	892,039
Total revenues	<u>24,435,041</u>	<u>404,317</u>	<u>1,373,872</u>	<u>26,213,230</u>
EXPENDITURES				
Current:				
General government	2,665,728	-	23,067	2,688,795
Public safety	12,219,739	300,938	549,297	13,069,974
Public works	1,286,389	-	734,356	2,020,745
Community development	4,451,528	130,908	221,756	4,804,192
Parks and recreation	386,059	-	-	386,059
Debt service:				
Principal	699,319	-	-	699,319
Interest	153,508	-	-	153,508
Expenditures	112,177	-	-	112,177
Capital outlays	350,478	-	583,299	933,777
Total expenditures	<u>22,324,925</u>	<u>431,846</u>	<u>2,111,775</u>	<u>24,868,546</u>
Excess of revenues over (under) expenditures	<u>2,110,116</u>	<u>(27,529)</u>	<u>(737,903)</u>	<u>1,344,684</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	17,871	33,085	1,177,751	1,228,707
Transfers to other funds	(2,039,836)	-	(91,163)	(2,130,999)
Proceeds of refunding debt	1,055,000	-	-	1,055,000
Premium on bond issue	88,664	-	-	88,664
Refunding debt redeemed	(1,031,487)	-	-	(1,031,487)
Sale of capital assets	19,856	-	-	19,856
Total other financing sources (uses)	<u>(1,889,932)</u>	<u>33,085</u>	<u>1,086,588</u>	<u>(770,259)</u>
Net change in fund balances	220,184	5,556	348,685	574,425
Fund balances beginning of year	<u>8,328,684</u>	<u>112,446</u>	<u>2,178,461</u>	<u>10,619,591</u>
Fund balances end of year	<u>\$ 8,548,868</u>	<u>\$ 118,002</u>	<u>\$ 2,527,146</u>	<u>\$ 11,194,016</u>

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

City of Hopkinsville, Kentucky
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011

Net change in fund balances - total governmental funds	\$ 574,425
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 depreciation of (\$1,883,130) exceeded capital outlays of \$1,875,710 in the current period.	(7,420)
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 \$7,442 with an overall loss of (\$15,049) less \$484 for commission expense for 2011.	(15,049)
Certain imposed nonexchange revenues were not recognized in the governmental funds because they were not available at June 30, 2011. The change in this account balance is a reconciling item for this statement.	89,743
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 (\$197,094) is reported with governmental activities, less \$11,869 allocated to business-type activities.	(185,225)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,723,785
Issuance of debt is revenue in the governmental funds, but the debt increases long-term liabilities in the statement of net assets.	(1,055,000)
The premium portion of debt is revenue in the governmental funds in the year of the debt issuance, but is a liability in the statement of net assets and is amortized over the life of the debt. The premium for the issuance of debt is \$88,664 with the amortization of the premium in the amount of (\$8,779). Costs for the issuance of debt are expenditures in the governmental fund, but are deferred charges in the statement of net assets. The debt issuance cost was (\$32,228).	(47,657)
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 \$80,172, decrease in accrued interest of (\$1,902), increase in pension obligation \$75,255, and amortization of deferred charges of \$12,491.	(166,016)
Change in net assets of governmental activities	<u>\$ 911,586</u>

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

City of Hopkinsville, Kentucky
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-type Activities Enterprise Funds			
	Major Fund			Governmental Activities- Internal Service Funds
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
ASSETS				
Current assets:				
Pooled cash and cash equivalents	\$ -	\$ 224,744	\$ 224,744	\$ -
Non-pooled cash and cash equivalents	83,859	-	83,859	696,485
Accounts receivable	-	-	-	-
Total current assets	83,859	224,744	308,603	696,485
Noncurrent assets:				
Capital assets:				
Land and construction in progress	-	260,159	260,159	-
Depreciable capital assets, net	3,585,029	175,880	3,760,909	-
Total noncurrent assets	3,585,029	436,039	4,021,068	-
Total assets	\$ 3,668,888	\$ 660,783	\$ 4,329,671	\$ 696,485
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 30,276	\$ 7,691	\$ 37,967	\$ -
Accrued salaries	-	23,231	23,231	-
Incurred, not yet reported	-	-	-	146,452
Accrued landfill closing costs	-	-	-	-
Compensated absences	-	3,881	3,881	-
Total current liabilities	30,276	34,803	65,079	146,452
Noncurrent liabilities:				
Accrued landfill closing costs	-	-	-	-
Compensated absences	-	21,993	21,993	-
Total noncurrent liabilities	-	21,993	21,993	-
Total liabilities	30,276	56,796	87,072	146,452
NET ASSETS				
Invested in capital assets	3,585,029	436,039	4,021,068	-
Unrestricted	53,583	167,948	221,531	550,033
Total net assets	\$ 3,638,612	\$ 603,987	\$ 4,242,599	\$ 550,033
Adjustment to reflect the consolidation of applicable internal service fund activities to enterprise funds			(265,224)	
Net assets of business-type activities			\$ 3,977,375	

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

City of Hopkinsville, Kentucky
Statement of Revenues,
Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities Enterprise Funds			
	Major Fund			Governmental Activities- Internal Service Funds
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
OPERATING REVENUES				
Charges for services	\$ 267,691	\$ 170,825	\$ 438,516	\$ -
Employee contributions	-	-	-	328,259
Employer contributions	-	-	-	1,116,667
Insurance reimbursement	-	-	-	-
Other income	-	-	-	-
Total operating revenues	267,691	170,825	438,516	1,444,926
OPERATING EXPENSES				
Salaries, wages and benefits	-	591,161	591,161	-
Lease expense	-	-	-	-
Management contract	215,087	-	215,087	-
Maintenance	16,566	157,847	174,413	-
Marketing	70,210	-	70,210	-
Operations	20,812	39,751	60,563	-
Utilities	57,603	5,956	63,559	-
Administrative	-	13,662	13,662	351,874
Supplies	10,337	1,722	12,059	-
Depreciation	131,469	33,350	164,819	-
Claims expense	-	-	-	1,290,526
Total operating expenses	522,084	843,449	1,365,533	1,642,400
Operating income (loss)	(254,393)	(672,624)	(927,017)	(197,474)
NONOPERATING REVENUES (EXPENSES)				
Interest income	260	-	260	380
Gain on sale of equipment	-	-	-	-
Total nonoperating revenues (expenses)	260	-	260	380
Income (loss) before transfers	(254,133)	(672,624)	(926,757)	(197,094)
Transfers in	125,012	777,280	902,292	-
Transfers out	-	-	-	-
Capital contributions	-	-	-	-
Transfer of net liabilities to component unit	-	-	-	-
Total transfers and capital contributions	125,012	777,280	902,292	-
Change in net assets	(129,121)	104,656	(24,465)	(197,094)
Net assets (liabilities) beginning of year	3,767,733	499,331	4,267,064	747,127
Net assets end of year	\$ 3,638,612	\$ 603,987	\$ 4,242,599	\$ 550,033
Adjustment to reflect the consolidation of applicable internal service fund activities to enterprise funds			(11,869)	
Change in net assets of business-type activities			\$ (36,334)	

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, 2011

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 267,691	\$ 170,825	\$ 438,516	\$ 1,444,926
Other cash receipts	-	-	-	-
Cash payments to employees for services	-	(626,510)	(626,510)	-
Cash payments to suppliers	(371,989)	(213,123)	(585,112)	(351,874)
Cash payments for claims	-	-	-	(1,211,173)
Net cash provided by (used in) operating activities	(104,298)	(668,808)	(773,106)	(118,121)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	125,012	777,280	902,292	-
Transfers out	-	-	-	-
Net cash provided by (used in) noncapital financing activities	125,012	777,280	902,292	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-
Payments for capital acquisitions	(8,620)	(101,291)	(109,911)	-
Net cash provided by (used in) capital and related financing activities	(8,620)	(101,291)	(109,911)	-
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Transfer to trust	-	-	-	-
Interest on investments	260	-	260	380
Net cash provided by (used in) investment activities	260	-	260	380
Net increase (decrease) in cash and cash equivalents	12,354	7,181	19,535	(117,741)
Cash and cash equivalents, beginning of year	71,505	217,563	289,068	814,226
Cash and cash equivalents, end of year	\$ 83,859	\$ 224,744	\$ 308,603	\$ 696,485
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (254,393)	\$ (672,624)	\$ (927,017)	\$ (197,474)
Adjustments:				
Depreciation	131,469	33,350	164,819	-
(Increase) decrease in assets:				
Accounts receivable	-	-	-	-
Increase (decrease) in liabilities:				
Accounts payable	18,626	5,814	24,440	-
Accrued liabilities	-	(35,348)	(35,348)	79,353
Net cash provided by (used in) operating activities	\$ (104,298)	\$ (668,808)	\$ (773,106)	\$ (118,121)
NONCASH CAPITAL ACTIVITIES				
Equipment purchased	\$ -	\$ 73,280	\$ 73,280	\$ -

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

City of Hopkinsville, Kentucky
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Pension Trust Funds</u>
ASSETS	
Cash	\$ 2,324
Accrued interest receivable	2,709
Money market	33,076
Corporate bond funds	<u>772,304</u>
 Total assets	 <u>\$ 810,413</u>
 LIABILITIES	
Administration fees payable	\$ <u>-</u>
 Total liabilities	 <u>-</u>
 NET ASSETS	
Held in trust for pension benefits	<u>810,413</u>
 Total liabilities and net assets	 <u>\$ 810,413</u>

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

City of Hopkinsville, Kentucky
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2011

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 400,000
Plan members	<u>-</u>
Total contributions	400,000
Investment earnings:	
Net appreciation (depreciation) in fair value of investments	(4,776)
Interest	37,122
Miscellaneous receipts	<u>10,200</u>
Total investment earnings	42,546
Less investment expense	<u>5,974</u>
Net investment earnings	<u>36,572</u>
Total additions	<u>436,572</u>
DEDUCTIONS	
Benefits	<u>392,402</u>
Change in net assets	44,170
Net assets beginning of year	<u>766,243</u>
Net assets end of year	<u>\$ 810,413</u>

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

City of Hopkinsville, Kentucky
Statement of Net Assets
Component Units
June 30, 2011

	Major			
	Hopkinsville Water Environment Authority	Hopkinsville Solid Waste Authority	Hopkinsville Surface and Storm Water Utility	Total
ASSETS				
Cash and cash equivalents	\$ 1,069,867	\$ 847,013	\$ 1,643,088	\$ 3,559,968
Receivables	1,019,089	360,360	78,503	1,457,952
Inventory	277,207	-	-	277,207
Prepaid expenses	-	-	-	-
Restricted assets:				
Cash and cash equivalents	1,467,198	4,991,893	2,145,711	8,604,802
Deferred charges	332,814	62,716	87,409	482,939
Notes receivable	522,546	-	-	522,546
Other receivables	113,141	-	-	113,141
Capital assets, net of depreciation:				
Land and construction in progress	12,410,658	1,451,044	1,185,552	15,047,254
Depreciable capital assets	84,121,631	843,102	2,984,311	87,949,044
Total assets	\$ 101,334,151	\$ 8,556,128	\$ 8,124,574	\$ 118,014,853
LIABILITIES				
Current portion of long-term debt	\$ 3,060,219	\$ 152,500	\$ 122,221	\$ 3,334,940
Current portion of capital lease obligation	7,315	102,451	-	109,766
Due to Oak Grove (current portion)	617,182	-	-	617,182
Line of credit	-	-	-	-
Christian Co. Fiscal Court loan payable	199,083	-	-	199,083
Customer deposits	67,348	-	-	67,348
Accrued interest	273,672	-	27,378	301,050
Accounts payable	579,479	718,984	158,702	1,457,165
Accrued salaries and compensated absences	96,288	117,994	-	214,282
Accrued liabilities	-	-	-	-
Accrued landfill closing costs	-	-	-	-
Note payable-UDAG	-	-	45,000	45,000
Note payable-City	-	-	-	-
Construction retainage payable	487,014	-	-	487,014
Construction contracts payable	211,940	-	-	211,940
Long-term liabilities:				
Compensated absences	114,039	168,574	-	282,613
Revenue bonds payable (net of current portion)	24,719,090	-	-	24,719,090
KIA - loans payable (net of current portion)	24,284,786	-	-	24,284,786
KLC - loans payable (net of current portion)	-	1,695,714	4,712,677	6,408,391
Capital lease obligation (net of current portion)	5,580	-	-	5,580
Accrued landfill closure costs	-	13,116,671	-	13,116,671
Due to Oak Grove (net of current portion)	-	-	-	-
KY Rural Finance loans payable (net of current portion)	1,818,500	-	-	1,818,500
City of Hopkinsville - loan payable	110,896	-	-	110,896
Total liabilities	56,652,431	16,072,888	5,065,978	77,791,297
NET ASSETS				
Invested in capital assets, net of related debt	41,069,826	2,191,695	1,310,546	44,572,067
Net assets, restricted (expendable)	1,467,198	-	-	1,467,198
Net assets, unrestricted	2,144,696	(9,708,455)	1,748,050	(5,815,709)
Total net assets	44,681,720	(7,516,760)	3,058,596	40,223,556
Total liabilities and net assets	\$ 101,334,151	\$ 8,556,128	\$ 8,124,574	\$ 118,014,853

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

EXPENSES

Total expenses

Interest revenues

Net assets end of year

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

1. Summary of Significant Accounting Policies

The financial statements of the City of Hopkinsville (the City) have been prepared in accordance 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 GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statement and Interpretations), constitutes GAAP for governmental units. 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 Solid Waste Authority (Solid Waste), doing business as Hopkinsville Solid Waste Authority, is responsible for the management and operation of the solid waste operations in the City. The City's governing body appoints the Solid Waste's governing board. The City's governing body also approves the rates for user charges and bond issuance authorizations. The legal liability for the general obligation portion of the Solid Waste's debt remains with the government. The Solid Waste is presented as a proprietary fund type.

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

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

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

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

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

Joint Ventures

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

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

1. Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

Joint Ventures, continued

<u>City-County Agency</u>	<u>City Funding</u>
Airport Board	\$ 37,000
Community and Development Services	357,723
Library Board	175,000
Emergency Communications Center	641,510

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

B. Basis of Presentation

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

Government-Wide Financial Statements

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

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

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

1. Summary of Significant Accounting Policies, continued

B. Basis of Presentation, continued

Government-Wide Financial Statements, continued

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

Fund Financial Statements

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

C. Fund Accounting

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

Governmental Funds

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

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

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

Continued

**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 – Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes, and are as follows:

Municipal Road Aid Fund - established to account for state grants restricted for road improvements.

Community Development Block Grant Fund - 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.

Police Incentive Fund – established to account for state money restricted for police officers who meet certain certified training and receive pay incentive.

Fire Incentive Fund – established to account for state money restricted for fire department employees who meet certain certified training and receive pay incentive.

UDAG Fund – established to account for federal money restricted for loans within the community for development of businesses.

Drug Enforcement Fund – established to account for 15% of confiscated funds received through drug deals and other criminal acts and other donations. The money received through this fund is then used for police equipment and supplies.

Expendable Trust Fund – established to account for various cemetery funds with a portion of the revenue remaining in this expendable trust fund and the remaining portion being designated to the permanent nonexpendable trust fund.

Cable TV Work Order Fund – established to account for money received from the cable company for legal fees. This fund was established in a cable agreement.

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.

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

1. Summary of Significant Accounting Policies, continued

C. Fund Accounting, continued

Governmental Funds, continued

Capital Projects Fund – Capital Projects Funds are established to account for acquisition of capital assets or construction of major capital projects purchased with funds from long-term borrowings, and is as follows:

Capital Fund – established to account for the acquisition of capital assets or construction of major capital projects purchased with funds from long-term borrowings.

Park Construction Fund – established to account for the development of the water park at Tie Breaker Park.

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. The City reports the following proprietary funds, which are classified as either enterprise or internal service.

Enterprise Funds – Enterprise funds 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 (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The City reports the following as enterprise funds:

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

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

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.

Continued

**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, continued

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

Fiduciary Funds

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

D. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

1. Summary of Significant Accounting Policies, continued

D. Measurement Focus, continued

Fund Financial Statements, continued

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

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

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

E. Basis of Accounting

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

For all proprietary fund types, it is required that the statement of revenues, expenses, and changes in fund 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	Licenses and permits
Intergovernmental	

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. In addition, the City is insured under FDIC up to \$250,000 at each bank.

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. Receivables

Receivables are amounts due representing revenues earned or accrued in the current period.

H. Inventory

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

I. Prepaid Items

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

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

1. Summary of Significant Accounting Policies, continued

J. 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 Statement of Net Assets 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 Maintenance & 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.

Reservations of equity show amounts that are not appropriate for expenditures or are legally restricted for specific uses. The Commission first applies restricted resources for expenditures for which both restricted and unrestricted net assets are available.

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.

The component of restricted assets for Storm Water Utility consists of certain bond proceeds from a general obligation bond placed into trust for use in the acquisition, construction, and installation of surface and storm water projects within the jurisdiction of the City.

K. 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

Continued

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

1. Summary of Significant Accounting Policies, continued

K. Capital Assets, continued

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

L. 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.

M. 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, 2011.

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

For governmental funds, the liability is not reported unless the compensated absences has matured (i.e. unused reimbursable leave still outstanding following an employee's resignation or retirement). The proprietary funds report the liability as it is incurred.

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

1. Summary of Significant Accounting Policies, continued

N. 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.

O. Bond Premiums/Issuance Costs

In governmental fund financial statements, bond premiums, discounts, and issuance costs are recognized in the current period. In the government-wide financial statements and proprietary fund types in the fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

P. Fund Balance

The City follows GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

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

1. Summary of Significant Accounting Policies, continued

P. Fund Balance, continued

- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or municipal order. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

In the General Fund, the City strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 25% of the actual GAAP (Generally Accepted Accounting Principles) basis expenditures and other financing sources and uses.

Q. 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.

A net asset deficit of \$7,516,760 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.

R. 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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

Continued

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

1. Summary of Significant Accounting Policies, continued

S. 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. Neither type of transaction occurred during fiscal year ended June 30, 2011.

T. Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles generally accepted in the United States of America 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.

U. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Municipal Road Aid Special Revenue Fund because effective budgetary control is alternately achieved through project budgets, bond indenture provisions and City ordinances, respectively.

Budgets for the General Fund and Municipal Road Aid Special Revenue Fund are adopted on the modified accrual basis. Encumbrance accounting, under which purchase orders, contracts and other commitments for the use of resources are reflected in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Municipal Road Aid Special Revenue Fund for which annual budgets have been adopted.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are included in restricted, committed, or assigned fund balance, as appropriate, and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

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.

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

2. Deposits and Investments, continued

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 \$9,180,132 and the bank balance was \$9,923,801. Of the cash balance, \$3,000,000 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, 2011, the City did not have any deposited funds exposed to custodial credit risk.

At year-end, the carrying amount of the deposits for the Sewerage and Waterworks Commission, discretely presented component unit, was \$2,535,029 and the bank balance was \$2,605,227. Of this bank balance, Federal Depository Insurance covered \$714,132, with the balance covered by collateral held by the pledging bank. Therefore, as of June 30, 2011, the Sewerage and Waterworks Commission did not have any deposited funds exposed to custodial credit risk. State law requires all funds to be fully insured or collateralized.

At year-end, the carrying amount of the Solid Waste's deposits was \$2,539,418 and the bank balance was \$2,567,119. Of the cash balance, \$250,000 was covered by federal depository insurance. The remaining balance was covered by collateral held by financial institution's agents in the Solid Waste's name. Therefore, as of June 30, 2011, the Solid Waste did not have any deposited funds exposed to custodial credit risk.

At year-end, the carrying amount of the Storm Water's deposits was \$1,643,089 and the bank balance was \$1,667,954. Of this bank balance, Federal Depository Insurance covered \$250,000, with the balance of \$1,417,954 covered by collateral held by financial institutions' agents in the Storm Water's name. Therefore, as of June 30, 2011, the Storm Water did not have any deposited funds exposed to custodial credit risk.

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

2. Deposits and Investments, continued

B. Investments

The investments for City of Hopkinsville consisted of the following:

<u>Investments as of June 30, 2011</u>	<u>Average Credit Quality/Rating</u>	<u>Fair Value (Primary Gov't)</u>	<u>Fair Value (Pension Trust Fund)</u>	<u>Average Maturity</u>
Insured Deposit Program MGD	N/A	\$ 682,138	\$ -	N/A
Insured Deposit Program MGDW	N/A	174,736	2,324	N/A
Sterling Capital Prime Money Market	N/A	12,558	33,076	45 Days
Sterling Capital Intermediate US Gov't Fund	AAA	203,372	-	3.34 Years
Sterling Capital Short Term Bond Instl Fund	A	4,969	-	2.86 Years
Sterling Capital Total Return Bond Instl Fund	AAA	113,748	-	4.53 Years
American Century Diversified Bond Fund	AAA	7,750	347,646	7.02 Years
Dodge & Cox Income Fund	AA	15,209	-	7.00 Years
Federated Total Return Gov't Fund	AAA	9,770	-	2.64 Years
Ishares Barclays US Treasury Inflation Protected	AA	8,298	-	3.61 Years
Fidelity Advisor Strategic Income Fund	AA	13,469	-	4.73 Years
Metropolitan West Total Return Bond	AAA	69,032	424,658	6.91 Years
PIMCO Low Duration Fund Class	N/A	6,888	-	3.83 Years
Ishares Barclays 7-10 Yr Treasury Bond Fund	AA	28,758	-	3.01 Years
PIMCO Total Return Fund Class	N/A	5,501	-	8.97 Years
Principal Preferred Securities Fund	BBB	9,912	-	5.99 Years
Vanguard GNMA Fund	AAA	<u>59,028</u>	<u>-</u>	6.50 Years
Total Credit Risk Debt Securities		<u>1,425,140</u>	<u>807,704</u>	
US Government Agencies (FNMA)		<u>110,816</u>	<u>-</u>	
Total Debt Securities		<u>\$ 1,535,956</u>	<u>\$ 807,704</u>	

The investments for Solid Waste consisted of the following:

<u>Investments as of June 30, 2011</u>	<u>Average Credit Quality/Rating</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Average Maturity</u>
First American Treasury Obligations Money Market Fund	AAA	\$ 3,299,488	\$ 3,299,488	49 days

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

2. Deposits and Investments, continued

B. Investments, continued

The investments for Storm Water consisted of the following:

<u>Investments as of June 30, 2011</u>	<u>Average Credit Quality/Rating</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Average Maturity</u>
Bank of New York Trust Account	N/A	\$ 2,145,711	\$ 2,145,711	N/A

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, 2011, none of the City's investments were subject to custodial credit risk.

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.

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

2. Deposits and Investments, continued

B. Investments, continued

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.

C. Restricted Assets

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

Bond and interest redemption	\$ 36,830
Construction	1,405,194
Unemployment	<u>25,174</u>
Total restricted assets	<u>\$ 1,467,198</u>

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

Landfill closure costs	\$ 3,299,487
Projects and expansion costs	<u>1,692,406</u>
Total restricted assets	<u>\$ 4,991,893</u>

The balance of the Storm Water's restricted asset account is

General obligation bond proceeds	<u>\$ 2,145,711</u>
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3. Property Taxes

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

The City is permitted by Section 157 of the Constitution of Kentucky to levy taxes up to \$1.50 per \$100 of assessed valuation for general governmental services other than school purposes. The tax rate to finance general governmental services other than school purposes for the year ended June 30, 2011, was \$.236 real and \$.251 personal per \$100, which means that the City has a tax margin of approximately \$1.264 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.

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