

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

**4. Capital Assets**

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

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
<b><u>Governmental Activities</u></b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,615,621	\$ -	\$ -	\$ 1,615,621
Construction in Progress	-	-	-	-
Total Capital Asset Not Being Depreciated	<u>1,615,621</u>	<u>-</u>	<u>-</u>	<u>1,615,621</u>
Capital Assets Being Depreciated:				
Buildings & Improvements	7,645,905	144,471	-	7,790,376
Equipment	6,614,482	675,210	59,220	7,230,472
Infrastructure	16,408,116	394,336	-	16,802,452
Land Improvements	4,656,972	410,893	-	5,067,865
Vehicles	1,792,999	250,801	37,450	2,006,350
Total Capital Assets Being Depreciated	<u>37,118,474</u>	<u>1,875,711</u>	<u>96,670</u>	<u>38,897,515</u>
Less Accumulated Depreciation:				
Buildings & Improvements	2,734,027	266,896	-	3,000,923
Equipment	3,713,380	514,956	54,924	4,173,412
Infrastructure	8,684,545	643,917	-	9,328,462
Land Improvements	1,271,344	205,933	-	1,477,277
Vehicles	1,545,233	251,429	26,697	1,769,965
Total Accumulated Depreciation	<u>17,948,529</u>	<u>1,883,131</u>	<u>81,621</u>	<u>19,750,039</u>
Total	<u>\$ 20,785,566</u>	<u>\$ (7,420)</u>	<u>\$ 15,049</u>	<u>\$ 20,763,097</u>

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

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 246,165
Public Safety	458,545
Public Works	884,576
Community Development	192,699
Parks and Recreation	<u>101,146</u>
Total Depreciation Expense	<u>\$ 1,883,131</u>

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

**4. Capital Assets, continued**

A summary of City enterprise funds property, plant and equipment at June 30, 2011, is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>Enterprise Fund Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 260,159	\$ -	\$ -	\$ 260,159
Capital Assets Being Depreciated:				
Buildings and improvements	3,957,937	-	-	3,957,937
Equipment	506,844	109,911	-	616,755
Vehicles	95,953	-	-	95,953
Total Capital Assets Being Depreciated	<u>4,560,734</u>	<u>109,911</u>	<u>-</u>	<u>4,670,645</u>
Less Accumulated Depreciation:				
Buildings and improvements	430,474	100,434	-	530,908
Equipment	251,071	60,905	-	311,976
Vehicles	63,372	3,480	-	66,852
Total Accumulated Depreciated	<u>744,917</u>	<u>164,819</u>	<u>-</u>	<u>909,736</u>
Total	<u>\$ 4,075,976</u>	<u>\$ (54,908)</u>	<u>\$ -</u>	<u>\$ 4,021,068</u>

Depreciation expense (including amortization of capitalized assets) of the enterprise funds for the year ended June 30, 2011, was \$164,819.

A summary of Commission enterprise fund property, plant and equipment at June 30, 2011, is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>Enterprise Fund Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,605,344	\$ -	\$ -	\$ 1,605,344
Construction in progress	6,312,527	4,492,787	-	10,805,314
Total Capital Assets Not Being Depreciated	<u>7,917,871</u>	<u>4,492,787</u>	<u>-</u>	<u>12,410,658</u>
Capital Assets Being Depreciated:				
Structures and Improvements	129,198,480	482,553	-	129,681,033
Equipment	9,738,002	112,792	-	9,850,794
Vehicles	717,726	69,304	105,966	681,064
Total Capital Assets Being Depreciated	<u>139,654,208</u>	<u>664,649</u>	<u>105,966</u>	<u>140,212,891</u>
Less Accumulated Depreciation:				
Structures and Improvements	45,317,295	2,685,195	-	48,002,490
Equipment	7,143,468	397,356	-	7,540,824
Vehicles	634,993	18,919	105,966	547,946
Total Accumulated Depreciation	<u>53,095,756</u>	<u>3,101,470</u>	<u>105,966</u>	<u>56,091,260</u>
Total	<u>\$ 94,476,323</u>	<u>\$ 2,055,966</u>	<u>\$ -</u>	<u>\$ 96,532,289</u>

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

**4. Capital Assets, continued**

Depreciation expense (including amortization of capitalized assets) for the Commission for the year ended June 30, 2011, was \$3,101,470.

A summary of Solid Waste enterprise fund property, plant and equipment at June 30, 2011, is as follows:

<b>Enterprise Fund Activities</b>	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 615,582	\$ -	\$ -	\$ 615,582
Construction in Progress	67,985	767,477	-	835,462
Total Capital Assets Not Being Depreciated	<u>683,567</u>	<u>767,477</u>	<u>-</u>	<u>1,451,044</u>
<b>Capital Assets Being Depreciated:</b>				
Buildings	184,605	-	-	184,605
Equipment	4,850,197	50,320	144,214	4,756,303
Land Improvements	579,723	-	-	579,723
Total Capital Assets Being Depreciated	<u>5,614,525</u>	<u>50,320</u>	<u>144,214</u>	<u>5,529,039</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and Improvements	36,019	5,342	-	41,361
Equipment	3,902,807	330,118	144,214	4,088,711
Land Improvements	543,155	4,302	-	547,457
Total Accumulated Depreciation	<u>4,481,981</u>	<u>339,762</u>	<u>144,214</u>	<u>4,677,529</u>
Total	<u>\$ 1,816,111</u>	<u>\$ 478,035</u>	<u>\$ -</u>	<u>\$ 2,294,146</u>

Depreciation expense (including amortization of capitalized assets) for Solid Waste for the year ended June 30, 2011, was \$339,762.

A summary of Storm Water enterprise fund property, plant and equipment at June 30, 2011, is as follows:

<b>Enterprise Fund Activities</b>	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 418,023	\$ -	\$ -	\$ 418,023
Construction in Progress	2,289,920	435,569	1,957,960	767,529
Total Capital Assets Not Being Depreciated	<u>2,707,943</u>	<u>435,569</u>	<u>1,957,960</u>	<u>1,185,552</u>
<b>Capital Assets Being Depreciated:</b>				
Infrastructure	181,782	2,820,082	-	3,001,864
<b>Less Accumulated Depreciation:</b>				
Infrastructure	5,669	11,884	-	17,553
Total	<u>\$ 2,884,056</u>	<u>\$ 3,243,767</u>	<u>\$ 1,957,960</u>	<u>\$ 4,169,863</u>

Depreciation expense (including amortization of capitalized assets) for Storm Water for the year ended June 30, 2011 was \$11,884.

For the year ended June 30, 2011, the Storm Water capitalized interest totaling \$90,660 for the construction of capital assets.

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

**5. Post-Retirement Benefits**

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

**6. Employee Retirement Systems**

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

(a) County Employees' Retirement System

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

**Funding policy.** Nonhazardous position plan members are required to contribute 5% of their annual creditable compensation while hazardous position plan members are required to contribute 8%. The City is required to contribute at an actuarially determined rate. The current rate is 16.93% of annual covered payroll for nonhazardous and 33.25% for hazardous position members. The contribution requirements of plan members and the City are established and may be amended by KRS Board of Trustees. The City's contribution to CERS for the three years ended June 30, 2011, 2010, and 2009, was \$2,918,628, \$2,634,309, and \$2,301,766, respectively, equal to the required contribution for these years. The Commission's contribution to CERS for the three years ended June

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

**6. Employee Retirement Systems, continued**

30, 2011, 2010, and 2009, was \$425,654, \$399,392, and \$346,368, respectively, equal to the required contribution for these years. The Solid Waste's contributions to CERS for the three years ended June 30, 2011, 2010, and 2009, was \$249,546, \$217,664 and \$210,380, respectively, equal to the required contribution for these years.

(b) Police and Firemen Pension Fund

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

**Plan Description.** The City's Policemen's and Firefighter's Pension Fund is a single-employer, defined benefit pension plan administered by the Board of Trustees of the Pension Fund. The City's Policemen's and Firefighter's Pension Fund has no active participants and 30 inactive retirees and beneficiaries receiving benefits. No new participants can be enrolled. No terminated employees entitled to deferred benefits exist. The authority to establish and amend benefit provisions has been assigned to the Council of the City of Hopkinsville. All new policemen and firefighters eligible for retirement benefits are participants in the County Employees' Retirement System.

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

Due to the consistency of the fund's activity each year, an actuarial valuation is not performed biennially as required by GASB, but is prepared every three years per state law requirements. Accordingly, the most recent report is dated April 17, 2009. This report stipulates that the actuarial valuation summarized has been performed utilizing generally accepted accounting principles.

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

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

Continued

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

**6. Employee Retirement Systems, continued**

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

Based on the January 1, 2009, actuarial valuation of the Fund, a suggested employer contribution to be applied to the fiscal year beginning July 1, 2009, has been determined. The interest rate used to determine the present value of future benefit payments is currently 6%, selected to recognize current and expected market conditions. Assuming a 3.25% COLA, the amortization period selected by the actuary is 2015 (4 years from 2011), which is the remaining life expectancy of the current beneficiaries. The normal cost is \$0, as there are no actively employed participants in the Fund.

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

Annual required contribution	\$ 701,402
Interest on net pension obligation	94,919
Adjustment to annual required contribution	<u>(321,066)</u>
Annual pension cost	475,255
Contributions made	<u>(400,000)</u>
Increase in net pension obligation	75,255
Net pension obligation beginning of year	<u>1,650,936</u>
 Net pension obligation end of year	 <u>\$1,726,191</u>

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/09	510,096	79%	1,581,987
6/30/10	468,949	85%	1,650,936
6/30/11	475,255	84%	1,726,191

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

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

**6. Employee Retirement Systems, continued**

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
1/1/2009	\$863,187	\$4,163,118	\$3,299,931	20.7	\$ -	N/A

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multi-year information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

Information as of the latest actuarial valuation is presented in the following table.

Valuation Date	01/01/09
Valuation Method	Entry age normal funding method (an aggregate variation)
Amortization method and period	Amortization period selected by actuary is six (6) years. Amortization is achieved using level dollar payments sufficient to pay interest on the unamortized amount each year.
Actuarial asset valuation method	Mean of book and market value
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increases	None
Post retirement benefit increases	None
Inflation	None

Continued

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

**7. Interfund Receivables and Payables**

There were no interfund receivables or payables between the governmental funds at June 30, 2011.

**8. Construction Commitment**

At June 30, 2011, the City did not have any construction commitments.

At June 30, 2011, the Commission had one material project pending, the Moss Water Treatment Plant expansion project. The total expenditures for the contract at the end of the year were approximately \$9.17 million with approximately \$1.33 million remaining for the project.

The Solid Waste had one construction project in progress, the Landfill Vertical Expansion. The total expenditures for the contract at the end of the year were approximately \$700,000 with approximately \$500,000 remaining for the project. The Solid Waste is in the preconstruction planning stage of a Leachate Treatment Facility. No construction commitments for this project existed at June 30, 2011.

At June 30, 2011, the Storm Water had two material contracts pending. For the South Fork Dry Dam project, total expenditures for the contract were approximately \$332,000. This project is currently in the planning stage with no current contract commitments. For the Rose Acres project, total expenditures were approximately \$266,000 with approximately \$6,000 remaining for the project.

**9. Short-Term Debt**

The City of Hopkinsville issued no short-term debt during the year ended June 30, 2011.

On March 16, 2010, the Commission entered into an agreement with the Christian County Fiscal Court for a loan up to \$500,000 to help expand sewer capacity in its Oak Grove division in order to meet the demands of potential retail and other developments in Oak Grove. This loan is non-interest bearing and is to be paid off with future loan funding from the Kentucky Infrastructure Authority.

Short-term debt activity for the Commission for the year-ended June 30, 2011, was as follows:

	Principal Outstanding <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>June 30, 2011</u>
Christian Co Fiscal Court	\$ -	\$ 199,083	\$ -	\$ 199,083
Total	<u>\$ -</u>	<u>\$ 199,083</u>	<u>\$ -</u>	<u>\$ 199,083</u>



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

**10. Long-Term Obligations**

During the year ended June 30, 2011, the following changes occurred in long-term liabilities:

	Principal Outstanding July 1, 2010	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding June 30, 2011	Due Within One Year
<b><u>Governmental Activities:</u></b>					
Compensated absences	\$ 1,219,315	\$ 139,796	\$ 59,623	\$ 1,299,488	\$ 194,923*
Net Pension Obligation	1,650,936	75,255	-	1,726,191	-
General Obligation Bond	5,457,556	1,055,000	554,545	5,958,011	515,568
Revenue Bond	1,214,306	-	27,085	1,187,221	28,232
Notes Payable	1,343,577	-	1,142,155	201,422	110,154
Plus: Unamortized premium	<u>-</u>	<u>88,664</u>	<u>8,779</u>	<u>79,885</u>	<u>-</u>
Total Governmental Activities	<u>\$10,885,690</u>	<u>\$ 1,358,715</u>	<u>\$ 1,792,187</u>	<u>\$10,452,218</u>	<u>\$ 720,926</u>
<b><u>Business Type</u></b>					
<b><u>Activities-City:</u></b>					
Compensated Absences	<u>\$ 65,567</u>	<u>\$ -</u>	<u>\$ 39,694</u>	<u>\$ 25,873</u>	<u>\$ 3,881*</u>
<b><u>Business Type</u></b>					
<b><u>Activities-Commission:</u></b>					
Compensated Absences	\$ 130,588	\$ 3,576	\$ -	\$ 134,164	\$ 20,124
Revenue Bonds	27,874,600	-	1,422,033	26,452,567	1,404,000
Notes Payable	26,473,747	4,418,498	2,410,229	28,482,016	2,273,401
Capital Leases	23,948	-	11,053	12,895	7,315
Less: Unamortized bond Discount	<u>(353,729)</u>	<u>-</u>	<u>(29,819)</u>	<u>(323,910)</u>	<u>-</u>
Total Business Type Activities- Commission	<u>\$54,149,154</u>	<u>\$ 4,422,074</u>	<u>\$ 3,813,496</u>	<u>\$54,757,732</u>	<u>\$ 3,704,840</u>
<b><u>Business Type</u></b>					
<b><u>Activities-Solid Waste:</u></b>					
Compensated Absences	\$ 185,213	\$ 13,108	\$ -	\$ 198,321	\$ 29,748*
Capital Leases-vehicles	200,443	-	97,992	102,451	102,451
Revenue bonds	-	1,835,000	23,333	1,811,667	152,500
Plus: Unamortized premium	-	37,183	636	36,547	-
Accrued Landfill Closing Costs	<u>13,268,033</u>	<u>-</u>	<u>151,362</u>	<u>13,116,671</u>	<u>-</u>
Total Business Type Activities- Solid Waste	<u>\$13,653,689</u>	<u>\$ 1,885,291</u>	<u>\$ 273,323</u>	<u>\$15,265,657</u>	<u>\$ 284,699</u>

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

**10. Long-Term Obligations, continued**

	<u>Principal Outstanding July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2011</u>	<u>Due Within One Year</u>
<b>Business Type</b>					
<b><u>Activities-Storm Water:</u></b>					
General Obligation Bond	\$ 4,954,016	\$ -	\$ 119,118	\$ 4,834,898	\$ 122,221
Total Business Type Activities- Storm Water	<u>\$ 4,954,016</u>	<u>\$ -</u>	<u>\$ 119,118</u>	<u>\$ 4,834,898</u>	<u>\$ 122,221</u>
Total Business Type Activities- Component Units	<u>\$ 72,756,859</u>	<u>\$ 6,307,365</u>	<u>\$ 4,205,937</u>	<u>\$ 74,858,287</u>	<u>\$ 4,111,760</u>

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

For governmental activities, compensated absences and claims and judgments payable are liquidated by the general fund.

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

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2011</u>
Kentucky League of Cities Funding Revenue, 2006 Series A - \$1,300,000	12/01/2035	Variable	\$ 1,187,221
 <u>Business Type Activities-Commission:</u>			
Water Sewer Facilities-1998-\$1,650,000	10/01/2021	3.75% to 4.90%	\$ 702,500
Water Sewer Facilities-2005A-\$25,635,000	10/01/2026	3.375% to 4.00%	21,505,000
Water Sewer Facilities-2005B-\$1,545,000	10/01/2017	3.00% to 3.75%	885,000
Water Sewer Facilities-2010-\$3,588,000	04/01/2030	3.20% to 4.40%	<u>3,360,067</u>
			26,452,567
Less: Unamortized bond discount			<u>(323,910)</u>
	Total		<u>\$ 26,128,657</u>
 <u>Business Type Activities-Solid Waste:</u>			
Kentucky Bond Corporation Revenue, 2011 Series A & B - \$1,835,000	02/01/2021	3.00% to 4.00%	\$ 1,811,667
Plus: Unamortized bond premium			<u>36,547</u>
	Total		<u>\$ 1,848,214</u>

**CITY OF HOPKINSVILLE, KENTUCKY  
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**10. Long-Term Obligations, continued**

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

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Interest</u>	<u>Business Type Activities Commission/Solid Waste</u>	<u>Interest</u>
2012	\$ 28,232	\$ 35,088	\$ 1,562,067	\$ 1,084,660
2013	29,705	36,835	1,627,083	1,028,868
2014	30,985	35,928	1,684,583	969,762
2015	32,414	34,936	1,749,583	907,832
2016	33,816	33,962	1,814,583	841,355
2017-2021	194,395	152,471	9,376,335	3,114,492
2022-2026	243,252	118,788	9,620,000	1,199,126
2027-2031	304,503	76,586	830,000	84,459
2032-2035	<u>289,919</u>	<u>23,728</u>	-	-
Total	<u>\$1,187,221</u>	<u>\$548,322</u>	<u>\$28,264,234</u>	<u>\$ 9,230,554</u>

General obligation bonds were issued in 2003 for the purpose of refunding a floating indebtedness obligation incurred by the City for an unfunded pension liability. General obligation bonds were issued in 2006 for the purpose of funding certain project improvements. General obligation bonds were issued in 2011 for the purpose of refinancing the lease agreement which was used for the acquisition and construction of a softball complex and fire station. The reduction in total debt service payments and economic gain cannot be determined due to the variable rate and payments of the refunded issue. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2011</u>
Kentucky League of Cities Funding GO, 2003 Series B - \$1,034,000	08/01/2017	4%-5.3%	\$ 612,000
Kentucky League of Cities Funding GO, 2004 Series A - \$1,250,000	03/01/2016	3%-3.75%	616,085
Kentucky League of Cities Fund GO, 2004 Series A - \$4,910,000	04/01/2026	3.5%-3.75%	3,840,759
Kentucky Bond Corporation GO, 2010 First Series A - \$1,055,000	2019	2.50%	889,167
			5,958,011
Plus: Unamortized bond premium			79,885
	Total		<u>\$ 6,037,896</u>

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

**10. Long-Term Obligations, continued**

<u>Business Type Activities-Storm Water:</u>	<u>Matures</u>	<u>Rate</u>	<u>2011</u>
KLC Bond - \$5,100,000	2038	Variable	<u>\$ 4,834,898</u>

The City and the Commission have issued notes payable, primarily for the purpose of funding various construction projects and financing a CERS liability. The outstanding debt related to notes payable at June 30, 2011, was:

Governmental Activities:

US Bank - \$358,334	2013	2.25%	\$ 201,422
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Business Type Activities-Commission:

KIA Fund A Wastewater - \$9,190,530	2016	1.2%	\$ 2,394,989
KIA Fund B Water Plant - \$5,000,000	2026	1.9%	2,852,210
KIA Fund A Phase II - \$3,167,272	2018	1.8%	1,249,181
KIA Fund A Wastewater - \$240,264	2017	1.2%	78,206
KIA Fund A - \$614,521	2020	0.4%	281,904
KIA Fund A Phase III - \$834,891	2021	3.8%	474,521
KIA Fund A Phase IV - \$4,583,635	2026	1.0%	3,503,447
KIA Fund C Wastewater	2018	4.00 to 4.25%	395,000
KIA Fund F Drinking Water - \$1,513,593	2028	1.0%	1,305,349
KIA Fund A Phase V - \$2,469,924	2027	1.0%	2,019,985
KIA Fund F Water - \$3,887,432	2028	3.0%	3,551,283
KIA Fund A-loan not closed yet			358,757
KIA Fund F-loan not closed yet			7,385,968
KY Rural Finance	2025	3.125 to 4.50%	437,500
KY Rural Finance	2029	2.28 to 4.405%	1,465,638
Due to Oak Grove	2012	N/A	617,182
City of Hopkinsville - \$120,000	Undetermined	N/A	<u>110,896</u>
			28,482,016
Less: Unamortized bond discount			<u>(323,910)</u>
	Total		<u>\$28,158,106</u>

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

**10. Long-Term Obligations, continued**

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

Fiscal Year Ending June 30	Governmental Activities		Enterprise Fund Component Units	
	Principal	Interest	Principal	Interest
2012	\$ 625,722	\$ 183,620	\$ 2,384,475	\$ 561,422
2013	624,019	174,869	1,807,693	527,602
2014	556,530	155,848	1,845,451	493,394
2015	571,135	137,440	1,884,952	457,904
2016	524,541	118,607	1,636,653	421,733
2017-2021	1,841,959	369,048	6,353,691	1,655,478
2022-2026	1,415,527	113,561	5,858,865	976,733
2027-2031	-	-	9,929,666	424,735
2032-2036	-	-	1,121,736	199,281
2037-2038	-	-	493,732	23,133
<b>Total</b>	<b>\$ 6,159,433</b>	<b>\$1,252,993</b>	<b>\$ 33,316,914</b>	<b>\$ 5,741,415</b>

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

During March 2009, the Kentucky League of Cities Funding Trust Program issued a general obligation bond to the Storm Water for \$5,100,000 for the purpose of funding the acquisition, construction, and installation of surface and storm water projects within the jurisdiction of the City. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The bond has a variable interest rate, currently 0.274% plus administrative fees, and matures on June 1, 2038.

The City refinanced the Kentucky League of Cities General Obligation Bond 2004 Series A and the Kentucky League of Cities Funding Revenue Bond 2006 Series A subsequent to year end. The new note has a beginning balance of \$4,965,000 with an interest rate of 2.00% to 3.75% with a maturity date of February 2035.

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

**10. Long-Term Obligations, continued**

Defeased Bonds Outstanding

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

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On June 30, 2011, \$335,000 bonds outstanding for the City are considered defeased. On June 30, 2011, the amount of bonds outstanding for the Commission considered defeased is undeterminable.

**11. Deferred Charges**

The bond issuance costs and premiums associated with the issuance of the general obligation bonds payable for the City are being amortized on the straight-line method over the term of the bonds. Amortization of the bond issuance costs that was charged to operations during the year was \$12,491. Amortization of the premium that was included in operations during the year was \$8,779.

The bond issuance costs and discounts associated with the issuance of the revenue bonds payable for the Commission are being amortized on the straight-line method over the term of the bonds. Amortization of the bond issuance costs that was charged to operations during the year was \$23,492. Amortization of the discount that was charged to operations during the year was \$29,819.

The bond issuance costs and premiums associated with the issuance of the revenue bonds payable for the Solid Waste are being amortized on the straight-line method over the term of the bonds. Amortization of the bond issuance costs that was charged to operations during the year was \$1,091. Amortization of the premium that was included in operations during the year was \$636.

The bond issuance costs associated with the issuance of the general obligation bonds payable for the Storm Water are being amortized on the straight-line method over the term of the bonds. Amortization of the bond issuance costs that was charged to operations during the year was \$3,241.

**12. Leases**

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

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

**12. Leases, continued**

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

The following is an analysis of the leased assets included in property and equipment:

	2011
Equipment under capital leases	\$ 44,949
Less accumulated depreciation	(16,856)
Total	\$ 28,093

The future minimum lease obligations as of June 30, 2011, were as follows:

2012		\$ 7,315
2013		5,580
		\$ 12,895

In March 2009, the Solid Waste leased a vehicle. The vehicle is leased at \$47,964 per year for a term of three years at an imputed interest rate of 4.55%. The first payment was due March 12, 2010. The lease expires on March 12, 2012.

In March 2009, the Solid Waste leased a vehicle. The vehicle is leased at \$59,149 per year for a term of three years at an imputed interest rate of 4.55%. The first payment was due March 12, 2010. The lease expires on March 12, 2012.

The assets acquired through these capital leases were as follows at June 30, 2011:

	2011
Vehicles	\$ 294,171
Less accumulated depreciation	(137,280)
Total	\$ 156,891

The future minimum lease obligations as of June 30, 2011, were as follows:

Year Ending June 30	Total Lease Payments	Less Imputed Interest	Present Value of Minimum Lease Payments
2012	\$ 107,113	\$ 4,662	\$ 102,451

The Storm Water Utility leases the watershed lakes known as Lake Tandy, Lake Morris, and Lake Boxley located in Christian County, Kentucky from the Hopkinsville Water Environment Authority (Commission). This lease is for the Storm Water to use the watershed lakes for flood control and water storage activities. The term of this lease is for a period of twenty (20) years beginning January 1, 2008, and ending December 31, 2027.

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

**12. Leases, continued**

The lessee or lessor may terminate the lease at any time during the lease period with a one (1) year written notice as to its intent to terminate the lease. The lease shall be automatically extended by a twenty (20) year period if no notice is given within the one (1) year time period provided. The Storm Water will pay the sum of \$1 per year to the Commission and further maintain property in the manner stated in the lease. The Storm Water will provide insurance for coverage of activities on the premises. Also, the Storm Water must honor existing lease agreements running with the premises.

The Storm Water Utility leases the watershed lake known as Lake Blythe located in Christian County, Kentucky from the City of Hopkinsville. The lease is for the Storm Water to use the watershed lake for flood control and water storage activities. The term of this lease is for a period of twenty (20) years beginning August 6, 2009, and ending August 5, 2029. The lessee or lessor may terminate the lease at any time during the lease period with a one (1) year written notice as to its intent to terminate the lease. The lease shall be automatically extended by a twenty (20) year period if no notice is given within the one (1) year time period provided. The Storm Water will pay the sum of \$1 per year to the City and further maintain property in the manner stated in the lease. The Storm Water will provide insurance for coverage of activities on the premises. Also, the Storm Water must honor existing lease agreements running with the premises.

**13. Interfund Transfers**

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

Interfund transfers for the year ended June 30, 2011, consisted of the following:

	Transfer From:				Total
	General Fund	Grants Fund	Grounds Maintenance Fund	Nonmajor Governmental Fund	
General Fund	\$ -	\$ -	\$ -	\$ 17,871	\$ 17,871
Grants Fund	33,085	-	-	-	33,085
Tie Breaker Family Fund	125,000	-	-	12	125,012
Grounds Maintenance Fund	704,000	-	-	73,280	777,280
Nonmajor Governmental Type	<u>1,177,751</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,177,751</u>
Total	<u>\$ 2,039,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,163</u>	<u>\$ 2,130,999</u>

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

Transfers from Nonmajor Governmental Fund to:	<u>Noncash</u>
Grounds Maintenance Fund	<u>\$ 73,280</u>



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

**14. Interfund Balances**

There were no interfund receivables or payables between the governmental funds at June 30, 2011.

**15. Fund Balance Classification**

The composition of the fund balance classifications at June 30, 2011 are as follows:

	Major Funds		Other	Total
	<u>General</u>	<u>Grants Fund</u>	<u>Governmental Funds</u>	
Fund balances:				
Nonspendable:	\$ -	\$ -	\$ -	\$ -
Restricted for:				
Grants	-	118,002	-	118,002
Municipal road aid	-	-	220,460	220,460
Community development block grant	-	-	-	-
Police incentive	-	-	18,861	18,861
Fire incentive	-	-	18,603	18,603
Urban development action grant	-	-	695,866	695,866
Expendable trust	-	-	496,894	496,894
Cable tv work order	-	-	3,646	3,646
Captial fund	-	-	623,772	623,772
Nonexpendable trust	-	-	385,912	385,912
Committed:				
General government	269,396	-	-	269,396
Public safety	700	-	63,132	63,832
Public works	-	-	-	-
Community development	600,642	-	-	600,642
Parks and recreation	26,865	-	-	26,865
Assigned:	-	-	-	-
Unassigned:	<u>7,651,265</u>	<u>-</u>	<u>-</u>	<u>7,651,265</u>
Total fund balances:	<u>\$ 8,548,868</u>	<u>\$ 118,002</u>	<u>\$ 2,527,146</u>	<u>\$ 11,194,016</u>

**Note:** The City has \$585,952 of encumbrances of operating funds in major and nonmajor funds at June 30, 2011, which will be rolled over into the next fiscal year.

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

**16. Claims and Judgments**

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

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

**17. Community Development Loan Funds**

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

**18. Contingencies**

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

**19. Risk Management**

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

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

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

**19. Risk Management, continued**

The Health Insurance Fund was established to account for the City's employee health care coverage program that is self-insured by the City. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At June 30, 2011, the claims liability was \$146,452 (a current liability to be paid with current assets). Changes in the claims liability during the last two years are as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Fiscal Year</u>
2009-2010	\$ 89,849	\$ 1,143,322	\$ 1,166,072	\$ 67,099
2010-2011	\$ 67,099	\$ 1,277,705	\$ 1,198,352	\$ 146,452

The Commission's health insurance premiums are composed of a fixed and a variable portion. The variable portion is based on actual claims experienced during the year and fluctuates each month based on claims. Premiums accrued for health insurance are based on the year-to-date claims experience of the Commission. At June 30, 2011, the claims liability was \$96,691. Changes in the claims liability during the last two fiscal years are as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Fiscal Year</u>
2009-2010	\$ 30,187	\$ 551,143	\$ 522,110	\$ 59,220
2010-2011	\$ 59,220	\$ 871,797	\$ 834,326	\$ 96,691

**20. Closure and Postclosure Care Costs**

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

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

**20. Closure and Postclosure Care Costs, continued**

The \$13,116,671 reported as Solid Waste landfill closure and postclosure care liability at June 30, 2011, represents the cumulative amount reported to date based on the use of approximately 95 percent of the capacity of the landfill. These amounts are based on what it would cost to perform all closure and postclosure care in 2011 as estimated by the consulting engineer. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

This total amount of closure and postclosure costs are estimated to be \$13,698,973, leaving \$582,302 remaining to be recognized. The remaining life of the current landfill is estimated to be two years. The Solid Waste has begun a construction project for the vertical expansion of the landfill's capacity which will result in a significant change in the liability estimate for closure and postclosure costs upon construction of the vertical expansion.

The City of Hopkinsville and the Solid Waste Authority are required by state and federal laws and regulations to provide assurances that financial resources will be available to provide for landfill closure and postclosure care. The Solid Waste Authority is in compliance with these requirements, as determined by the Kentucky Natural Resources and Environmental Protection Cabinet, by entering into a trust agreement that calls for scheduled future annual funding contributions to the trust. At June 30, 2011, \$3,299,488 is held for such purposes and reported as restricted assets on the balance sheet. The Solid Waste expects future inflation costs will be paid from these funds combined with the scheduled future funding and related investment income. However, if earnings are inadequate or additional postclosure care requirements are determined due to changes in technology, laws, regulations, or other, additional funding would be required.

**21. Related Party Transactions**

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

The City has collected from the Commission a capital credit in the amount of \$11,110 for the fiscal year ended June 30, 2011.

Solid Waste paid the Commission \$64,903 for providing customer billing and collection services and \$164,118 for leachate purification services for the year ended June 30, 2011. Accounts payable for these services at June 30, 2011 was \$20,756.

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

**21. Related Party Transactions, continued**

The City assesses a percentage of Solid Waste revenue as payment in lieu of taxes. The Solid Waste paid the City \$141,218 for payment in lieu of taxes for the year ended June 30, 2011.

The Storm Water has contracted services with the City for bookkeeping services to be done by the Finance Department. This contract requires Storm Water to pay the City \$850 each month for work done by the Finance Department. For the year ended June 30, 2011, the total amount paid to the Finance Department was \$10,200. The Storm Water also reimburses the City for materials and other expenses allocable to the Storm Water. For the year ended June 30, 2011, the total amount reimbursed to the City for such work was \$274. The Storm Water has contracted services with the Community and Development Services for administration services and code enforcement for \$13,333 each month. For the year ended June 30, 2011, the total amount paid to the Planning Commission for the services was \$159,996.

The Commission provides utility billing and cash collection services for the Storm Water. The Commission charges the Storm Water for these services. For the year ended June 30, 2011, the expense for billing and collection services totaled \$58,462. At June 30, 2011, accounts payable for these services was \$5,115.

The Storm Water has notes payable with the City for the purpose of funding operating expenses. The Storm Water has a short-term liability of \$45,000 from the City's UDAG Revolving Loan Fund for pre-funding of operating expenses for the Storm Water, which is due immediately upon receipt of bond proceeds. The interest rate on this loan is 2%.

During the year ended June 30, 2011, the following changes occurred in short-term liabilities:

	<u>Principal Outstanding July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2011</u>
UDAG Revolving Loan	\$ 95,000	\$ -	\$ 50,000	\$ 45,000
Total	<u>\$ 95,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 45,000</u>

**22. The Single Audit Act**

The U.S. Office of Management and Budget's Circular No. A-133 for *Audits of State, Local Governments and Non-Profit Organizations* requires non-federal entities that expend \$500,000 or more a year in federal awards to have an audit performed in accordance with the provisions of the Circular. A separate supplemental report will be issued on active grant programs of the City of Hopkinsville in accordance with appropriate provisions of the Single Audit Act of 1984, P.L. 98-502 and the Single Audit Act Amendments of 1996, P.L. 104-156.

**CITY OF HOPKINSVILLE, KENTUCKY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 POLICE AND FIREMEN DEFINED BENEFIT PENSION TRUST  
 June 30, 2011**

**1. SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll (b-a)/c
1/1/2003	\$ 766,342	\$ 4,136,854	\$ 3,370,512	18.5	\$ -	N/A
1/1/2006	827,258	4,376,738	3,549,480	18.9	-	N/A
1/1/2009	863,187	4,163,118	3,299,931	20.7	-	N/A

**2. SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year	Annual Required Contribution	Percentage Contributed
2007	701,402	58.8%
2008	701,402	56.7%
2009	701,402	57.5%
2010	701,402	57.0%
2011	701,402	57.0%

**3. NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Valuation Date	01/01/09
Valuation Method	Entry age normal funding method (an aggregate variation)
Amortization method and period	Amortization period selected by actuary is six (6) years. Amortization is achieved using level dollar payments sufficient to pay interest on the unamortized amount each year.
Actuarial asset valuation method	Mean of book and market value
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increases	None
Post retirement benefit increases	None
Inflation	None

**City of Hopkinsville, Kentucky**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		Actual (See Note A)	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 4,443,000	\$ 4,599,400	\$ 4,616,800	\$ 17,400
Licenses and permits	17,586,500	17,967,200	18,009,814	42,614
Fines and forfeits	35,000	27,000	27,671	671
Intergovernmental	542,752	880,552	882,528	1,976
Charges for services	-	-	-	-
Interest	43,000	32,000	32,489	489
Other revenues	932,294	906,075	850,481	(55,594)
<b>Total Revenues</b>	<u>23,582,546</u>	<u>24,412,227</u>	<u>24,419,783</u>	<u>7,556</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Administrative	1,430,697	1,493,681	1,426,821	66,860
Tax department	440,498	440,498	380,974	59,524
Information technology	594,236	468,060	466,388	1,672
Legislative	307,436	316,058	298,916	17,142
Public safety:				
Police	6,097,459	6,182,044	5,914,744	267,300
Fire	5,542,505	5,822,258	5,797,935	24,323
Other	1,041,510	1,041,510	1,041,510	-
Public works:				
Administrative	213,669	215,370	191,105	24,265
Street	886,828	895,077	792,818	102,259
Other	946,000	1,026,168	1,008,316	17,852
Service center	327,380	310,813	302,287	8,526
Community development	2,189,784	2,227,386	1,991,391	235,995
Parks and recreation	398,472	421,125	387,873	33,252
Debt service:				
Principal	699,319	699,319	699,319	-
Interest & finance charges	153,508	153,508	153,508	-
Debt expenditures (refunding)	-	112,177	112,177	-
Capital outlays	-	350,477	350,477	-
<b>Total expenditures</b>	<u>21,269,301</u>	<u>22,175,529</u>	<u>21,316,559</u>	<u>858,970</u>
Excess of revenues over (under) expenditures	2,313,245	2,236,698	3,103,224	866,526
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	35,000	25,000	19,856	(5,144)
Issuance of debt (refunding)	-	1,055,000	1,055,000	-
Premium on debt issuance	-	88,664	88,664	-
Refunding debt redeemed	-	(1,031,487)	(1,031,487)	-
Transfers in	-	-	17,871	17,871
Transfers out	(1,760,000)	(2,120,000)	(2,719,548)	(599,548)
<b>Total other financing sources (uses)</b>	<u>(1,725,000)</u>	<u>(1,982,823)</u>	<u>(2,569,644)</u>	<u>(586,821)</u>
Net change in fund balance	588,245	253,875	533,580	279,705
Fund balance beginning of year	8,328,684	8,328,684	8,328,684	-
Fund balance end of year	<u>\$ 8,916,929</u>	<u>\$ 8,582,559</u>	<u>\$ 8,862,264</u>	<u>\$ 279,705</u>

**CITY OF HOPKINSVILLE, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)**  
**ON BUDGETARY ACCOUNTING AND CONTROL**  
**For the Year Ended June 30, 2011**

**Stewardship, Compliance and Accountability**

Budgets and Budgetary Accounting:

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

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

A reconciliation of resultant basis, timing, perspective, and entity differences in the excess of revenues and other sources of financial resources over expenditures and other uses of financial resources for the year ended June 30, 2012, of the General Fund is presented below.

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	\$ 533,580
Adjustments:	
To adjust expenditures for salary accruals	(68,399)
To adjust expenditures for payable accruals	30,688
To adjust revenues for tax and license accruals	<u>14,558</u>
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 510,427</u>



**City of Hopkinsville, Kentucky**  
**Note to Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2011**

**Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

	General Fund	Special Revenue Funds	Total
<b>REVENUES</b>			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 24,419,783	\$ -	\$ 24,419,783
Adjustments:			
The City budgets for receivables on the cash basis, rather than on the modified accrual basis	14,558		14,558
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	-	700	700
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	\$ 24,434,341	\$ 700	\$ 24,435,041
<b>EXPENDITURES</b>			
Actual amounts (budgetary basis) "total revenues" from the budgetary comparison schedule	\$ 21,316,559	\$ -	\$ 21,316,559
Adjustments:			
The City budgets for payables on the cash basis, rather than on the modified accrual basis	(30,688)	-	(30,688)
The City budgets for payroll on the cash basis, rather than on the modified accrual basis	68,399	-	68,399
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	-	970,655	970,655
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	\$ 21,354,270	\$ 970,655	\$ 22,324,925
<b>OTHER FINANCING SOURCES (USES)</b>			
Reclassifications:			
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	\$ (679,712)	\$ 679,712	\$ -

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

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Pooled cash and cash equivalents	\$ 613,587	\$ 623,772	\$ -	\$ 1,237,359
Non-pooled cash and cash equivalents	133,345	-	82,937	216,282
Investments	363,549	-	302,975	666,524
Loans receivable	251,085	-	-	251,085
Due from component unit	155,896	-	-	155,896
Other receivables	29,848	-	-	29,848
<b>Total assets</b>	<b><u>\$ 1,547,310</u></b>	<b><u>\$ 623,772</u></b>	<b><u>\$ 385,912</u></b>	<b><u>\$ 2,556,994</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 29,848	\$ -	\$ -	\$ 29,848
Interfund payables	-	-	-	-
<b>Total liabilities</b>	<b><u>29,848</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>29,848</u></b>
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	-
Restricted	1,454,330	623,772	385,912	2,464,014
Committed	63,132	-	-	63,132
Assigned	-	-	-	-
Unassigned	-	-	-	-
<b>Total fund balances</b>	<b><u>1,517,462</u></b>	<b><u>623,772</u></b>	<b><u>385,912</u></b>	<b><u>2,527,146</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 1,547,310</u></b>	<b><u>\$ 623,772</u></b>	<b><u>\$ 385,912</u></b>	<b><u>\$ 2,556,994</u></b>

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

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Intergovernmental	\$ 1,280,064	\$ -	\$ -	\$ 1,280,064
Investment income	27,120	-	(3,725)	23,395
Insurance proceeds	-	29,555	-	29,555
Other	32,454	-	8,404	40,858
<b>Total revenues</b>	<u>1,339,638</u>	<u>29,555</u>	<u>4,679</u>	<u>1,373,872</u>
<b>EXPENDITURES</b>				
Current:				
General government	11,675	11,392	-	23,067
Public safety	549,297	-	-	549,297
Public works	734,347	9	-	734,356
Community development	166,226	55,530	-	221,756
Capital outlay	-	583,299	-	583,299
<b>Total expenditures</b>	<u>1,461,545</u>	<u>650,230</u>	<u>-</u>	<u>2,111,775</u>
Excess of revenues over (under) expenditures	<u>(121,907)</u>	<u>(620,675)</u>	<u>4,679</u>	<u>(737,903)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	101,236	1,076,515	-	1,177,751
Transfers out	(17,871)	(73,292)	-	(91,163)
Issuance of debt	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>83,365</u>	<u>1,003,223</u>	<u>-</u>	<u>1,086,588</u>
<b>Net change in fund balances</b>	<u>(38,542)</u>	<u>382,548</u>	<u>4,679</u>	<u>348,685</u>
Fund balances beginning of year	<u>1,556,004</u>	<u>241,224</u>	<u>381,233</u>	<u>2,178,461</u>
<b>Fund balances end of year</b>	<u>\$ 1,517,462</u>	<u>\$ 623,772</u>	<u>\$ 385,912</u>	<u>\$ 2,527,146</u>

City of Hopkinsville, Kentucky  
 Combining Balance Sheet  
 Nonmajor Special Revenue Funds  
 June 30, 2011

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Drug Enforcement	Expendable Trust Funds	Cable TV Work Order	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>									
Pooled cash and cash equivalents	\$ 220,460	-	\$ 18,861	\$ 18,603	\$ 288,885	\$ 63,132	-	\$ 3,646	\$ 613,587
Non-pooled cash and cash equivalents	-	-	-	-	-	-	133,345	-	133,345
Investments	-	-	-	-	-	-	363,549	-	363,549
Loans receivable	-	-	-	-	251,085	-	-	-	251,085
Due from component unit	-	-	-	-	155,896	-	-	-	155,896
Other receivables	-	29,848	-	-	-	-	-	-	29,848
<b>Total assets</b>	<b>\$ 220,460</b>	<b>\$ 29,848</b>	<b>\$ 18,861</b>	<b>\$ 18,603</b>	<b>\$ 695,866</b>	<b>\$ 63,132</b>	<b>\$ 496,894</b>	<b>\$ 3,646</b>	<b>\$ 1,547,310</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Accounts payable	-	-	-	-	-	-	-	-	-
Interfund payables	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,848</b>
<b>FUND BALANCES</b>									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted	220,460	-	18,861	18,603	695,866	-	-	3,646	1,454,330
Committed	-	-	-	-	-	63,132	-	-	63,132
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>220,460</b>	<b>-</b>	<b>18,861</b>	<b>18,603</b>	<b>695,866</b>	<b>63,132</b>	<b>496,894</b>	<b>3,646</b>	<b>1,517,462</b>
<b>Total liabilities and fund balances</b>	<b>\$ 220,460</b>	<b>\$ 29,848</b>	<b>\$ 18,861</b>	<b>\$ 18,603</b>	<b>\$ 695,866</b>	<b>\$ 63,132</b>	<b>\$ 496,894</b>	<b>\$ 3,646</b>	<b>\$ 1,547,310</b>

**City of Hopkinsville, Kentucky**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2011**

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Drug Enforcement	Expendable Trust Funds	Cable TV Work Order	Total Nonmajor Special Revenue Funds
<b>REVENUES</b>									
Intergovernmental	\$ 654,622	\$ 166,226	\$ 233,147	\$ 226,069	\$ -	\$ -	\$ -	\$ -	\$ 1,280,064
Investment income	726	-	-	-	-	-	26,394	-	27,120
Other	-	-	-	-	1,337	31,117	-	-	32,454
Total revenues	<u>655,348</u>	<u>166,226</u>	<u>233,147</u>	<u>226,069</u>	<u>1,337</u>	<u>31,117</u>	<u>26,394</u>	-	<u>1,339,638</u>
<b>EXPENDITURES</b>									
General government	-	-	-	-	-	-	11,675	-	11,675
Public safety	-	-	233,417	226,327	-	89,553	-	-	549,297
Public works	734,347	-	-	-	-	-	-	-	734,347
Community development	-	166,226	-	-	-	-	-	-	166,226
Total expenditures	<u>734,347</u>	<u>166,226</u>	<u>233,417</u>	<u>226,327</u>	-	<u>89,553</u>	<u>11,675</u>	-	<u>1,461,545</u>
Excess of revenues over (under) expenditures	<u>(78,999)</u>	-	<u>(270)</u>	<u>(258)</u>	<u>1,337</u>	<u>(58,436)</u>	<u>14,719</u>	-	<u>(121,907)</u>
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	1,236	-	-	-	100,000	-	-	-	101,236
Transfer out	(17,871)	-	-	-	-	-	-	-	(17,871)
Issuance of debt	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>(16,635)</u>	-	-	-	<u>100,000</u>	-	-	-	<u>83,365</u>
Net change in fund balances	<u>(95,634)</u>	-	<u>(270)</u>	<u>(258)</u>	<u>101,337</u>	<u>(58,436)</u>	<u>14,719</u>	-	<u>(38,542)</u>
Fund balances beginning of year	<u>316,094</u>	-	<u>19,131</u>	<u>18,861</u>	<u>594,529</u>	<u>121,568</u>	<u>482,175</u>	<u>3,646</u>	<u>1,556,004</u>
Fund balances end of year	<u>\$ 220,460</u>	<u>\$ -</u>	<u>\$ 18,861</u>	<u>\$ 18,603</u>	<u>\$ 695,866</u>	<u>\$ 63,132</u>	<u>\$ 496,894</u>	<u>\$ 3,646</u>	<u>\$ 1,517,462</u>

**City of Hopkinsville, Kentucky  
Combining Balance Sheet  
Nonmajor Capital Projects Funds  
June 30, 2011**

	Capital Fund	Park Construction Fund	Total Nonmajor Capital Projects Funds
<b>ASSETS</b>			
Pooled cash and cash equivalents	\$ 623,772	\$ -	\$ 623,772
Non-pooled cash and cash equivalents	-	-	-
Loans receivable	-	-	-
 Total assets	 \$ 623,772	 \$ -	 \$ 623,772
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
 Total liabilities	 \$ -	 \$ -	 \$ -
 <b>FUND BALANCES</b>			
Nonspendable	-	-	-
Restricted	623,772	-	623,772
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
 Total fund balances	 623,772	 -	 623,772
 Total liabilities and fund balances	 \$ 623,772	 \$ -	 \$ 623,772

**City of Hopkinsville, Kentucky**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Capital Projects Funds**  
**For the Year Ended June 30, 2011**

	Capital Fund	Park Construction Fund	Total Nonmajor Capital Projects Funds
<b>REVENUES</b>			
Insurance proceeds	\$ 29,555	\$ -	\$ 29,555
Investment income	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>29,555</u>	<u>-</u>	<u>29,555</u>
<b>EXPENDITURES</b>			
Current:			
General government	2,105	9,287	11,392
Public works	9	-	9
Community development	55,530	-	55,530
Capital outlay	<u>583,299</u>	<u>-</u>	<u>583,299</u>
Total expenditures	<u>640,943</u>	<u>9,287</u>	<u>650,230</u>
Excess of revenues over (under) expenditures	<u>(611,388)</u>	<u>(9,287)</u>	<u>(620,675)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	1,076,515	-	1,076,515
Transfers out	<u>(73,280)</u>	<u>(12)</u>	<u>(73,292)</u>
Total other financing sources (uses)	<u>1,003,235</u>	<u>(12)</u>	<u>1,003,223</u>
Net change in fund balances	391,847	(9,299)	382,548
Fund balances beginning of year	<u>231,925</u>	<u>9,299</u>	<u>241,224</u>
Fund balances end of year	<u>\$ 623,772</u>	<u>\$ -</u>	<u>\$ 623,772</u>

**CITY OF HOPKINSVILLE, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2011

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identifying Number</u>	<u>Federal Expenditures</u>
<b>Department of Housing and Urban Development</b>			
Community Development Block Grants / Entitlement Grants	14.218	B09-MC-210002	\$ 166,226
Home Investment Partnerships Program (Passed through Kentucky Housing Corp.)	14.239	GF11-0351-02	12,322
<b>Department of Homeland Security</b>			
Homeland Security Grant Program (Passed through Kentucky Office of Homeland Security)	97.067	PO2-094-0800021025-2	10,637
<b>Department of Justice</b>			
Bulletproof Vest Partnership Program	16.607		4,847
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	GL-KWY-111	20,336
ARRA Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804	2009-SB-B0-2050	28,094
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0370	193,465 *
<b>Department of Transportation</b>			
ARRA - Highway Planning and Construction (Passed through Kentucky Transportation Cabinet):			
ISTEA Grant-Streetscape Sidewalk Project	20.205		18,571
ISTEA Grant-Safe Routes to School North Drive Sidewalks for Safety	20.205	PO2-628-0800015653	14,547
State and Community Highway Safety (Passed through Kentucky Transportation Cabinet)	20.600	K4CP-10-23	4,681
<b>Department of the Interior</b>			
Historic Preservation Fund Grants-in-Aid (Passed through Kentucky Heritage Council)	15.904	21-10-21924	4,700
<b>Department of Energy</b>			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE0001485	28,719
<b>U.S Department of Agriculture</b>			
Cooperative Forestry Assistance (Passed through Kentucky Energy and Environment Cabinet, Dept. for Natural Resources, Division of Forestry)	10.664	PON2-128-11000011741	<u>3,820</u>
<b>Total Federal Expenditures</b>			<b>\$ 510,965</b>

\*Denotes major program



**CITY OF HOPKINSVILLE, KENTUCKY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2011**

**NOTE A - BASIS OF PRESENTATION**

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

**NOTE B - SUBRECIPIENTS**

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Community Development Block Grant	14.218	<u>\$ 46,952</u>



**& CO. - HOPKINSVILLE LLP**

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FIRM ID # 61-1313802

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hopkinsville, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City of Hopkinsville, Kentucky's basic financial statements and have issued our report thereon dated January 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

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

*York, Neal + Co. - Hopkinsville, KY*

Hopkinsville, Kentucky  
January 30, 2012



**& CO. - HOPKINSVILLE LLP**

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KERRY T. FORT, CPA

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the City of Hopkinsville, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City of Hopkinsville, Kentucky's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Hopkinsville, Kentucky's management. Our responsibility is to express an opinion on the City of Hopkinsville, Kentucky's compliance based on our audit.

City of Hopkinsville's basic financial statements include the operations of Hopkinsville Water Environment Authority (a discretely presented component unit), which received \$785,881 in federal awards which is not included in the schedule during the year ended June 30, 2011. Our audit, described below, did not include the operations of Hopkinsville Water Environment Authority because Hopkinsville Water Environment Authority had a separately issued report in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hopkinsville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Hopkinsville, Kentucky's compliance with those requirements.

In our opinion, the City of Hopkinsville, Kentucky complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

### **Internal Control Over Compliance**

Management of City of Hopkinsville, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hopkinsville, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hopkinsville, Kentucky's internal control over compliance.

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

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

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

*York, Neal + Co. - Accountants, LLC*

Hopkinsville, Kentucky  
January 30, 2012



**CITY OF HOPKINSVILLE**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2011**

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