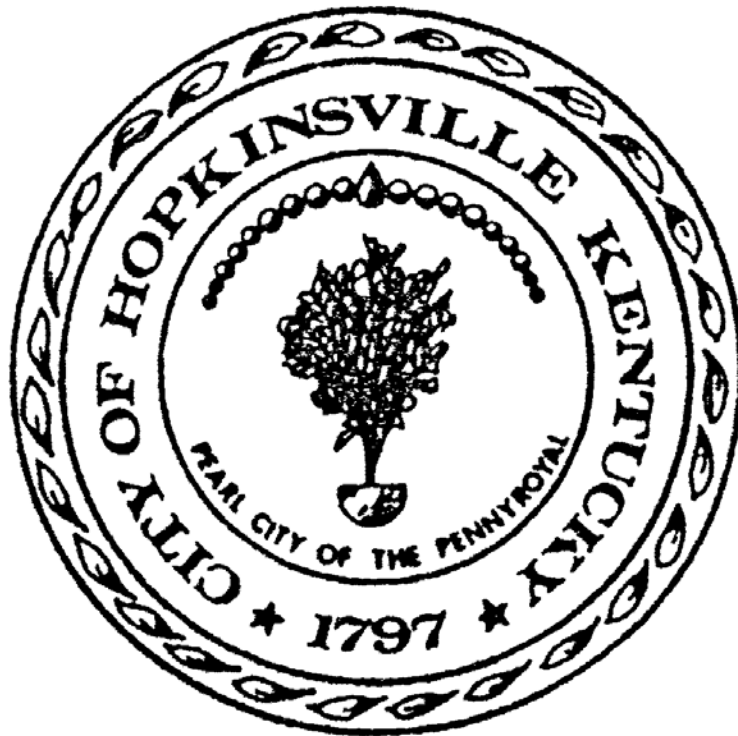


**CITY OF HOPKINSVILLE, KENTUCKY  
BASIC FINANCIAL STATEMENTS**



**For the Year Ended  
June 30, 2012**

**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, 2012, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2013, 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  
Page 2

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 historical context. 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 as a whole.

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

Hopkinsville, Kentucky  
January 30, 2013

## 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, 2012. 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 \$28.2 million (net assets). This amount includes \$9.4 million that are restricted to specific projects by laws, regulations, or contractual agreements. A total of \$296 thousand of resources are unrestricted and are available to fund the City's outstanding obligations and future programs.
- The City's total net assets increased \$1.35 million this year. Net assets of governmental activities increased \$1.45 million and net assets of business-type activities decreased by \$97 thousand.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$21.4 million, an increase of \$10.22 million from the prior year. Approximately \$8.7 million, 40.65% of this total amount, is unassigned and available for spending.
- The City's governmental activities total debt increased overall by \$8.6 million. The debt decreased by \$5.68 million due to the repayment of debt and increased by \$14.3 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 fourteen (14) 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, Grants Fund and City Hall/Police Department Construction 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 72-78 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 \$28.2 million, an increase of \$1.35 million over last year. Of the \$28.2 million, \$18.5 million or 65.7% was invested in capital assets, and \$0.3 million or 1.1% was unrestricted. Net assets of governmental activity funds total \$24.3 million, with \$14.6 million or 60.2% invested in capital assets and \$0.3 million or 1.2% 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	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 23,452,458	\$ 13,452,831	\$ 52,566	\$ 43,379	\$ 23,505,024	\$ 13,496,210
Capital assets	<u>21,490,236</u>	<u>20,763,097</u>	<u>3,884,469</u>	<u>4,021,068</u>	<u>25,374,705</u>	<u>24,784,165</u>
Total assets	<u>\$ 44,942,694</u>	<u>\$ 34,215,928</u>	<u>\$ 3,937,035</u>	<u>\$ 4,064,447</u>	<u>\$ 48,879,729</u>	<u>\$ 38,280,375</u>
Long-term liabilities outstanding	\$ 18,538,425	\$ 9,603,341	\$ 25,278	\$ 21,993	\$ 18,563,703	\$ 9,625,334
Other liabilities	<u>2,072,849</u>	<u>1,727,461</u>	<u>31,298</u>	<u>65,079</u>	<u>2,104,147</u>	<u>1,792,540</u>
Total liabilities	<u>\$ 20,611,274</u>	<u>\$ 11,330,802</u>	<u>\$ 56,576</u>	<u>\$ 87,072</u>	<u>\$ 20,667,850</u>	<u>\$ 11,417,874</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 14,638,231	\$ 14,252,333	\$ 3,884,469	\$ 4,021,068	\$ 18,522,700	\$ 18,273,401
Restricted	9,392,938	862,029	-	-	9,392,938	862,029
Unrestricted	<u>300,251</u>	<u>7,770,764</u>	<u>(4,010)</u>	<u>(43,693)</u>	<u>296,241</u>	<u>7,727,071</u>
Total net assets	<u>\$ 24,331,420</u>	<u>\$ 22,885,126</u>	<u>\$ 3,880,459</u>	<u>\$ 3,977,375</u>	<u>\$ 28,211,879</u>	<u>\$ 26,862,501</u>

The net assets of the City's business-type activities total \$3.880 million. Of the net assets total, \$3.884 million (100.1%) was invested in capital assets with an unrestricted fund deficit balance of (\$4 thousand) (-0.1%).

### A. Analysis of the City's Operations

The following table provides a summary of the City's operations for the year ended June 30, 2012. Governmental activities increased the City's net assets by \$1.45 million, accounting for 107% of the increase in the net assets. Business-type activities decreased the City's net assets by (\$97 thousand), which was (7%) of the total increase.

## City of Hopkinsville – Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services and sales	\$ 1,792,681	\$ 1,774,835	\$ 507,650	\$ 438,516	\$ 2,300,331	\$ 2,213,351
Operating grants/contributions/interest	4,563,052	2,994,188	-	-	4,563,052	2,994,188
Capital grants/contributions	1,046,027	524,503	-	-	1,046,027	524,503
General revenues:						
Property taxes	4,801,291	4,625,446	-	-	4,801,291	4,625,446
Occupational taxes	12,848,161	12,519,527	-	-	12,848,161	12,519,527
Insurance premium tax	3,391,798	3,281,185	-	-	3,391,798	3,281,185
Franchise tax	309,740	285,939	-	-	309,740	285,939
Transient room tax	331,319	288,913	-	-	331,319	288,913
Investment income	59,002	27,900	426	260	59,428	28,160
Gain on sale of capital assets	-	-	-	-	-	-
Other	<u>32,420</u>	<u>6,319</u>	<u>-</u>	<u>-</u>	<u>32,420</u>	<u>6,319</u>
Total revenues	<u>\$ 29,175,491</u>	<u>\$ 26,328,755</u>	<u>\$ 508,076</u>	<u>\$ 438,776</u>	<u>\$ 29,683,567</u>	<u>\$ 26,767,531</u>

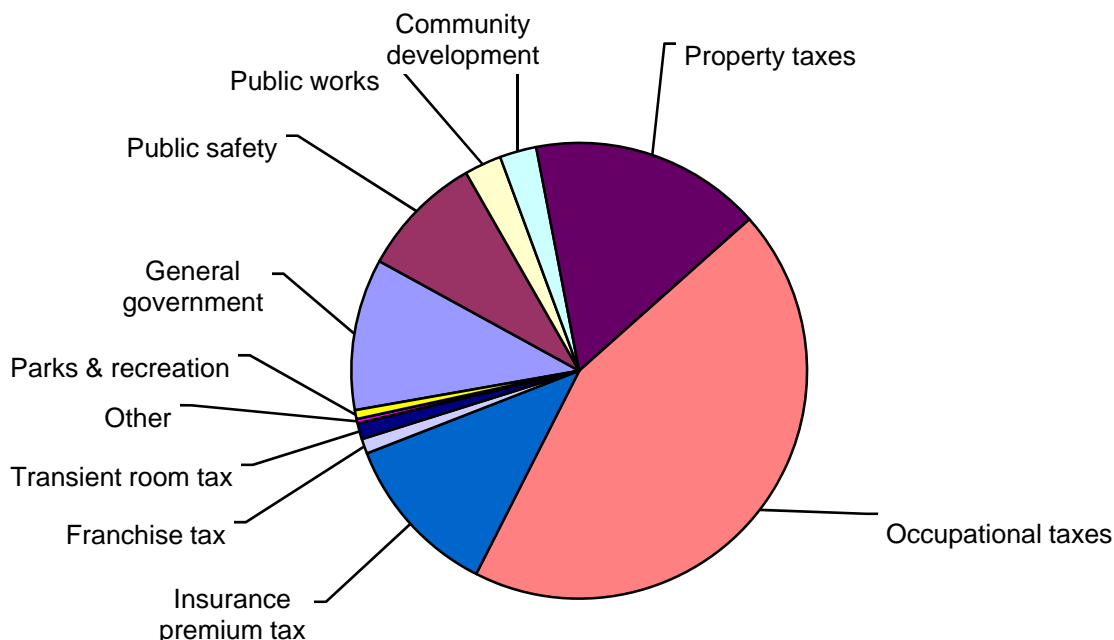
## City of Hopkinsville – Changes in Net Assets, continued

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Expenses:						
General government	\$ 3,062,764	\$ 3,042,861	\$ -	\$ -	\$ 3,062,764	\$ 3,042,861
Public safety	15,583,252	13,738,181	-	-	15,583,252	13,738,181
Public works	2,254,799	2,159,587	-	-	2,254,799	2,159,587
Community development	5,223,222	4,951,175	-	-	5,223,222	4,951,175
Parks and recreation	446,441	451,955	-	-	446,441	451,955
Interest on long-term debt	327,913	171,118	-	-	327,913	171,118
Tie Breaker Family Aquatic	-	-	547,162	522,084	547,162	522,084
Grounds maintenance	-	-	888,636	855,318	888,636	855,318
Total expenses	<u>\$ 26,898,391</u>	<u>\$ 24,514,877</u>	<u>\$ 1,435,798</u>	<u>\$ 1,377,402</u>	<u>\$ 28,334,189</u>	<u>\$ 25,892,279</u>
Change in net assets before Transfers	\$ 2,277,100	\$ 1,813,878	\$ (927,722)	\$ (938,626)	\$ 1,349,378	\$ 875,252
Transfers	<u>(830,806)</u>	<u>(902,292)</u>	<u>830,806</u>	<u>902,292</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	1,446,294	911,586	(96,916)	(36,334)	1,349,378	875,252
Net assets – 7/1/11	<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>
Net assets – 6/30/12	<u>\$ 24,331,420</u>	<u>\$ 22,885,126</u>	<u>\$ 3,880,459</u>	<u>\$ 3,977,375</u>	<u>\$ 28,211,879</u>	<u>\$ 26,862,501</u>

### B. Governmental Activities

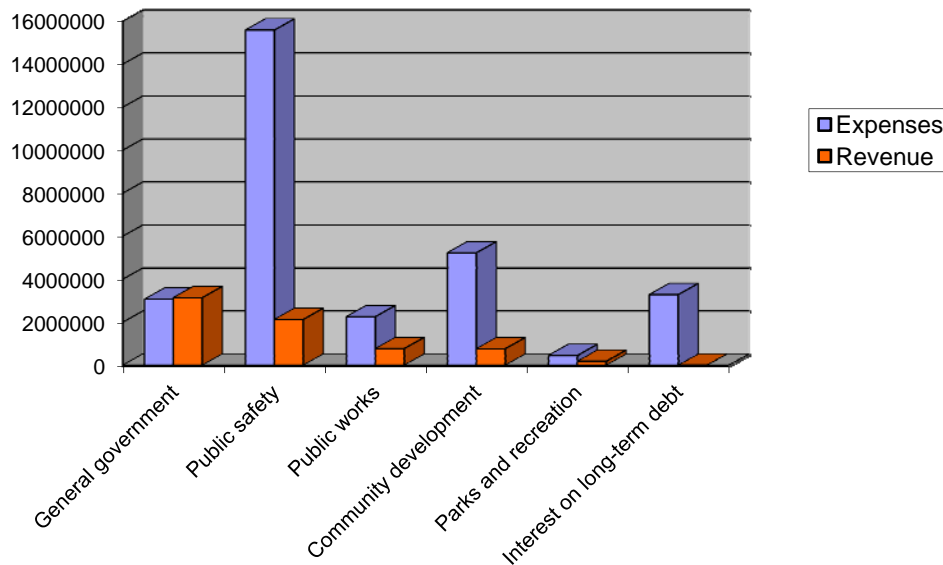
Total revenues for the City's governmental activities total \$29.2 million at June 30, 2012, compared to \$26.3 million last year. Occupational taxes total \$12.8 million or 44.0% of revenue. The second largest category of government revenues, property taxes, accounts for \$4.8 million, or 16.5% of total revenues. The third largest category of government revenues, operating grants/contributions/interest, accounts for \$4.6 million, or 15.6% of revenue. Insurance premium tax totals \$3.4 million, or 11.6% of the total collections. Miscellaneous sources account for \$32 thousand, or 0.11%.

#### Revenue by Source – Governmental Activities



Current year total expenses of the City's governmental activities total \$26.9 million, compared to \$24.5 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 \$15.6 million and account for 57.9% of total expenses. The second largest category of expenses, Community Development, totals \$5.2 million and accounts for 19.4% of expenses. General government is the next largest category and totals \$3.1 million, or 11.4% of expenses. Public Works totals \$2.3 million, or 8.4% of expenses.

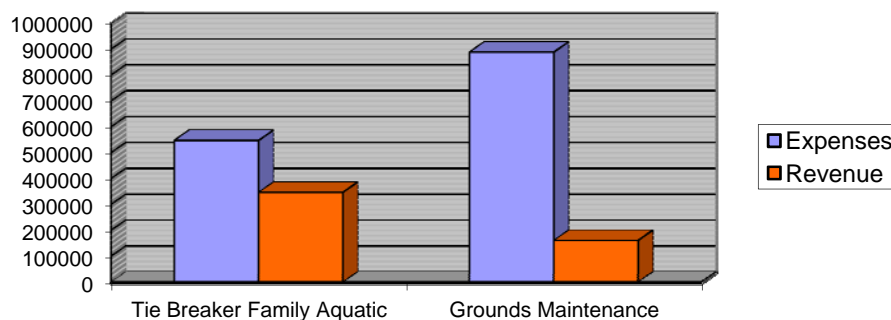
### Expenses and Program Revenues – Governmental Activities



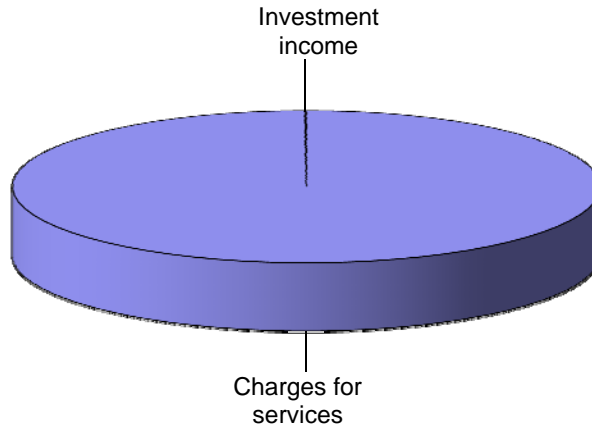
### C. Business-Type Activities

Revenue for business-type activities total \$508 thousand this fiscal year compared to \$439 thousand last year. Of this, \$508 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 61.9% of business-type expenses. The Tie Breaker Family Aquatic Park accounts for 38.1% of business-type activities.

### Expenses and Revenues – Business-Type Activities



### Revenue by Source – Business-Type Activities

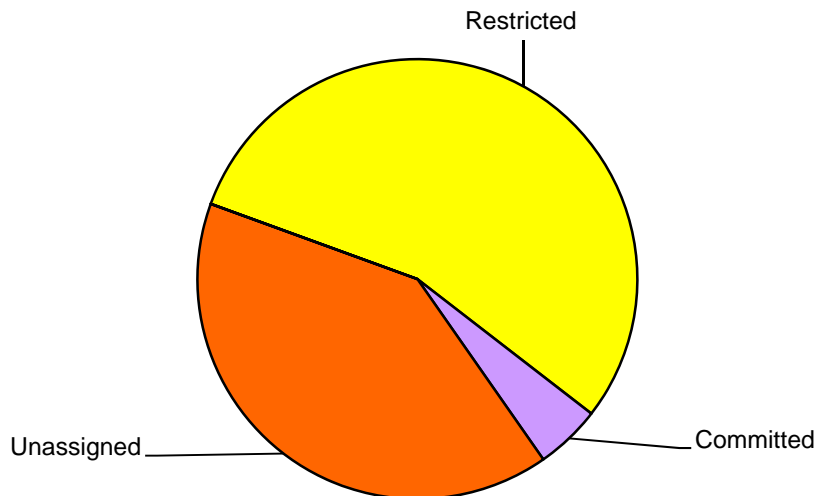


### D. Governmental Funds

At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$21.41 million, an increase of \$10.22 million from the prior year. Approximately 40.7% of this total amount, \$8.70 million, is unassigned fund balance, which is available for spending at the government’s discretion. Approximately 54.9%, \$11.76 million, is restricted fund balance. The remainder of fund balance, \$0.94 million, 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 \$10.22 million 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 2011-12 fiscal year, the total fund balance in the General Fund was \$9.5 million, which represents an increase of \$970 thousand from the prior year. Of this total, unassigned fund balance was \$8.7 million and reflected by 32.4% 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 36.9% of total general fund expenditures of \$23.6 million, and total fund balance represents 40.3% 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 \$4.16 million as of June 30, 2012, compared to \$4.24 million last year.

The Water Park has total net assets of \$3.56 million, representing a decrease of \$75 thousand from prior year. Of the total net assets, \$3.46 million was invested in capital assets and \$0.10 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 \$595 thousand, representing a \$9 thousand decrease over last year. Of the total net assets, \$425 thousand was invested in capital assets. Unrestricted net assets was \$170 thousand. This decrease is primarily the result of events and programs described within the analysis of the City's business-type activities.

## IV. General Fund Budgetary Highlights

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 \$812,560 or 3.5% during the year. The changes in appropriations can be briefly summarized as follows:

- \$ 29,070 increase in general administrative
- \$ 3,000 increase in tax department
- \$ 112,169 decrease in information technology
- \$ 7,500 increase in legislative
- \$ 22,946 increase in police
- \$ - no change in emergency communications
- \$ 263,785 increase in fire
- \$ - no change in other public safety
- \$ 8,131 increase in public works administrative
- \$ 27,750 increase in street
- \$ 564 increase in service center
- \$ - no change in other public works
- \$ 216,916 increase in community development
- \$ 7,508 increase in parks and recreation
- \$ - no change in debt service principal
- \$ - no change in interest and finance charges
- \$ 103,354 increase in debt expenditures (refunding)
- \$ 234,205 increase in capital outlays

The net increase to appropriations of \$812,560 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 a \$1,207,557 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, hire lags in various departments, not funding an agency that had lost its tax exempt status, and lower tax rebates than budgeted.

## V. Capital Asset and Debt Administration

### A. Capital Assets

The City's total investment in capital assets is \$25.4 million (net of accumulated depreciation) as of June 30, 2012, which represents a decrease of \$591 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 \$21.5 million, an increase of \$727 thousand. For business-type activities, investments totaled \$3.9 million, a decrease of (\$136.6 thousand).

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,615,621	\$ 1,615,621	\$ 260,159	\$ 260,159	\$ 1,875,780	\$ 1,875,780
Construction in Progress	233,957	-	-	-	233,957	-
Land improvements	3,548,577	3,590,588	54,098	54,098	3,602,675	3,644,686
Buildings	4,701,212	4,789,453	3,272,943	3,372,931	7,974,155	8,162,384
Machinery and equipment	3,926,426	3,293,445	297,269	333,880	4,223,695	3,627,325
Infrastructure	<u>7,464,443</u>	<u>7,473,990</u>	<u>-</u>	<u>-</u>	<u>7,464,443</u>	<u>7,473,990</u>
Total	<u>\$21,490,236</u>	<u>\$20,763,097</u>	<u>\$3,884,469</u>	<u>\$ 4,021,068</u>	<u>\$25,374,705</u>	<u>\$ 24,784,165</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 \$16.07 million in outstanding notes and bonds compared to \$7.43 million at June 30, 2012, an increase of \$8.64 million. The City had total new debt of \$14,322,924 issued during this fiscal year. General obligations bonds in the amount of \$4,965,000 were issued to refinance the KLC revenue bonds and KLC general obligation bonds that were used for the acquisition and construction of the water park and renovation of the old First City Bank building. General obligation bonds in the amount of \$7,220,000 were issued for the construction of a new city administration building and renovation of the current city administration building to become the police department. A loan through Section 108 CDBG was issued for \$1,500,000 for the renovation of the various parks in the City. A note payable in the amount \$610,706 was entered into for the purchase of a fire truck. The following table illustrates the changes in outstanding notes, bonds and capital leases:

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
KLC General Obligation bonds	\$13,925,112	\$6,037,896
KLC Revenue bonds	-	1,187,221
Note payable	<u>2,140,448</u>	<u>201,422</u>
Total	<u>\$16,065,560</u>	<u>\$7,426,539</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 \$168,014,059. 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 2012 was 11.0%. This rate compares unfavorably to state and federal unemployment rates, 8.4% and 8.4%, 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 2011-2012 budget for the City of Hopkinsville was prepared. The beginning general fund balance for fiscal year 2011-2012 was \$8,548,868, and has estimated an ending fund balance of \$9,382,163. At the present time the City is in good financial condition.



## **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 9<sup>th</sup> 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, 2012**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Pooled cash and cash equivalents	\$ 9,870,238	\$ 199,545	\$ 10,069,783	\$ -
Non-pooled cash and cash equivalents	397,266	130,616	527,882	7,744,229
Accounts receivable	-	-	-	1,888,723
Taxes receivable	2,188,917	-	2,188,917	-
Intergovernmental receivables	380,355	-	380,355	-
Other receivables	212,884	-	212,884	493,785
Internal balances	277,595	(277,595)	-	-
Due from component unit	124,279	-	124,279	-
Deferred charges	245,278	-	245,278	449,662
Inventory	-	-	-	337,353
Noncurrent restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	8,964,676	-	8,964,676	7,733,883
Investments	389,210	-	389,210	-
Permanently restricted assets:				
Cash and cash equivalents	78,580	-	78,580	-
Investments	323,180	-	323,180	-
Capital Assets				
Land and construction in progress	1,849,578	260,159	2,109,737	8,963,310
Depreciable capital assets, net	19,640,658	3,624,310	23,264,968	98,976,366
Total capital assets	<u>21,490,236</u>	<u>3,884,469</u>	<u>25,374,705</u>	<u>107,939,676</u>
Total assets	<u>\$ 44,942,694</u>	<u>\$ 3,937,035</u>	<u>\$ 48,879,729</u>	<u>\$ 126,587,311</u>
<b>LIABILITIES</b>				
Accrued salaries	\$ 628,243	\$ -	\$ 628,243	\$ 94,904
Accounts payable	322,641	26,837	349,478	680,077
Claims payable	57,242	-	57,242	-
Accrued interest	114,653	-	114,653	282,459
Transient bond deposits	3,500	-	3,500	-
Construction retainage payable	-	-	-	309,671
Construction contracts payable	-	-	-	1,071,221
Customer deposits	-	-	-	69,273
Due to primary government	-	-	-	109,959
Noncurrent liabilities:				
Due within one year	907,285	-	907,285	3,635,702
Due beyond one year	17,047,218	-	17,047,218	74,671,536
Compensated absences:				
Due within one year	39,283	4,461	43,744	253,738
Due beyond one year	1,491,209	25,278	1,516,487	221,063
Total liabilities	<u>20,611,274</u>	<u>56,576</u>	<u>20,667,850</u>	<u>81,399,603</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	14,638,231	3,884,469	18,522,700	40,468,856
Restricted for:				
Capital projects	8,500,587	-	8,500,587	-
Perpetual care:				
Expendable	505,234	-	505,234	-
Nonexpendable	387,117	-	387,117	-
Unrestricted	300,251	(4,010)	296,241	4,718,852
Total net assets	<u>24,331,420</u>	<u>3,880,459</u>	<u>28,211,879</u>	<u>45,187,708</u>
Total liabilities and net assets	<u>\$ 44,942,694</u>	<u>\$ 3,937,035</u>	<u>\$ 48,879,729</u>	<u>\$ 126,587,311</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, 2012**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
<b>PRIMARY GOVERNMENT</b>								
Governmental activities:								
General government	\$ (3,062,764)	\$ 1,741,921	\$ 1,397,140	\$ -	\$ 76,297	\$ -	\$ 76,297	\$ -
Public safety	(15,583,252)	39,908	2,084,487	427,428	(13,031,429)	-	(13,031,429)	-
Public works	(2,254,799)	-	743,259	25,195	(1,486,345)	-	(1,486,345)	-
Community development	(5,223,222)	10,852	156,716	593,404	(4,462,250)	-	(4,462,250)	-
Parks and recreation	(446,441)	-	181,450	-	(264,991)	-	(264,991)	-
Interest on long-term debt	(327,913)	-	-	-	(327,913)	-	(327,913)	-
Total governmental activities	<u>(26,898,391)</u>	<u>1,792,681</u>	<u>4,563,052</u>	<u>1,046,027</u>	<u>(19,496,631)</u>	<u>-</u>	<u>(19,496,631)</u>	<u>-</u>
Business-type activities:								
Tie Breaker Family Aquatic	(547,162)	346,430	-	-	-	(200,732)	(200,732)	-
Grounds Maintenance	(888,636)	161,220	-	-	-	(727,416)	(727,416)	-
Total business-type activities	<u>(1,435,798)</u>	<u>507,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(928,148)</u>	<u>(928,148)</u>	<u>-</u>
Total - primary government	<u>\$ (28,334,189)</u>	<u>\$ 2,300,331</u>	<u>\$ 4,563,052</u>	<u>\$ 1,046,027</u>	<u>(19,496,631)</u>	<u>(928,148)</u>	<u>(20,424,779)</u>	<u>-</u>
<b>COMPONENT UNITS</b>								
Hopkinsville Water Environment Authority	(11,596,490)	12,900,584	-	109,971	-	-	-	1,414,065
Hopkinsville Solid Waste Authority	(5,064,838)	5,052,541	-	-	-	-	-	(12,297)
Hopkinsville Surface and Stormwater	(1,119,745)	1,175,512	226,122	-	-	-	-	281,889
Total - component units	<u>(17,781,073)</u>	<u>19,128,637</u>	<u>226,122</u>	<u>109,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,683,657</u>
<b>GENERAL REVENUES</b>								
Property taxes					4,801,291	-	4,801,291	-
Occupational taxes					12,848,161	-	12,848,161	-
Insurance premium tax					3,391,798	-	3,391,798	-
Franchise tax					309,740	-	309,740	-
Transient room tax					331,319	-	331,319	-
Investment income					59,002	426	59,428	45,103
Gain (loss) on sale of capital assets					-	-	-	27,342
Other					32,420	-	32,420	307,467
Total general revenues					<u>21,773,731</u>	<u>426</u>	<u>21,774,157</u>	<u>379,912</u>
Transfers					(830,806)	830,806	-	-
Estimated landfill closure costs					-	-	-	2,614,030
Capital contributions					-	-	-	286,553
Total general revenue, transfers, & special items					<u>20,942,925</u>	<u>831,232</u>	<u>21,774,157</u>	<u>3,280,495</u>
Change in net assets					1,446,294	(96,916)	1,349,378	4,964,152
Net assets beginning of year					<u>22,885,126</u>	<u>3,977,375</u>	<u>26,862,501</u>	<u>40,223,556</u>
Net assets end of year					<u>\$ 24,331,420</u>	<u>\$ 3,880,459</u>	<u>\$ 28,211,879</u>	<u>\$ 45,187,708</u>

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

**City of Hopkinsville, Kentucky  
Balance Sheet  
Governmental Funds  
June 30, 2012**

	Major Fund			Other Governmental Funds	Total Governmental Funds
	General	Grants Fund	City Hall/PD Construction		
<b>ASSETS</b>					
Pooled cash and cash equivalents	\$ 8,210,719	\$ 116,121	\$ 7,381,413	\$ 1,543,397	\$ 17,251,650
Non-pooled cash and cash equivalents	32,477	-	-	1,661,843	1,694,320
Investments	-	-	-	712,389	712,389
Taxes receivable	1,992,657	-	-	-	1,992,657
Interest receivable	-	-	-	-	-
Interfund receivable	-	-	-	-	-
Intergovernmental receivables	40,596	-	-	-	40,596
Loans receivable	-	-	-	212,884	212,884
Due from component unit	-	-	-	109,959	109,959
Other receivables	-	343,868	-	10,211	354,079
<b>Total assets</b>	<b>\$ 10,276,449</b>	<b>\$ 459,989</b>	<b>\$ 7,381,413</b>	<b>\$ 4,250,683</b>	<b>\$ 22,368,534</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 125,939	\$ 171,808	\$ -	\$ 24,896	\$ 322,643
Accrued salaries	628,243	-	-	-	628,243
Interfund payables	-	-	-	-	-
Bond issue cost payable	-	-	-	-	-
Transient bond deposits	3,500	-	-	-	3,500
<b>Total liabilities</b>	<b>757,682</b>	<b>171,808</b>	<b>-</b>	<b>24,896</b>	<b>954,386</b>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	-	-
Restricted	-	288,181	7,381,413	4,091,074	11,760,668
Committed	813,823	-	-	134,713	948,536
Assigned	-	-	-	-	-
Unassigned	8,704,944	-	-	-	8,704,944
<b>Total fund balances</b>	<b>9,518,767</b>	<b>288,181</b>	<b>7,381,413</b>	<b>4,225,787</b>	<b>21,414,148</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,276,449</b>	<b>\$ 459,989</b>	<b>\$ 7,381,413</b>	<b>\$ 4,250,683</b>	<b>\$ 22,368,534</b>

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, 2012**

Total fund balance - total governmental funds	\$ 21,414,148
Amounts reported for governmental activities in the statement of net assets are different because:	
Taxes receivable based on availability criteria; \$30,300 property taxes, \$119,091 insurance premium taxes, and \$46,869 franchise taxes.	196,260
Deferred charges - bond refinancing charges, amortizable over life of debt	245,278
Capital assets of \$43,142,865, net of accumulated depreciation of (\$21,652,629), are not financial resources and, therefore, are not reported in the funds. See note 4 for additional detail.	21,490,236
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 \$307,548 are included in governmental activities in the statement of net assets, plus \$277,595 allocated to business type activities.	585,143
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.	(19,390,077)
Premium on bond issuance is amortized over life of debt	(94,915)
Accrued interest	<u>(114,653)</u>
Net assets of governmental activities	<u>\$ 24,331,420</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, 2012**

	Major Fund			Other Governmental Funds	Total Governmental Funds
	General	Grants Fund	City Hall/PD Construction		
<b>REVENUES</b>					
Taxes	\$ 4,800,961	\$ -	\$ -	\$ -	\$ 4,800,961
Licenses and permits	18,864,318	-	-	-	18,864,318
Fines and forfeits	39,908	-	-	-	39,908
Intergovernmental	1,258,505	925,773	-	1,435,127	3,619,405
Investment income	35,504	-	4,269	44,697	84,470
Donations	-	-	-	20,000	20,000
Charges for services	-	-	-	-	-
Other	1,865,089	-	-	128,412	1,993,501
Total revenues	<u>26,864,285</u>	<u>925,773</u>	<u>4,269</u>	<u>1,628,236</u>	<u>29,422,563</u>
<b>EXPENDITURES</b>					
Current:					
General government	2,717,201	-	843	71,584	2,789,628
Public safety	13,762,761	504,687	-	883,985	15,151,433
Public works	1,649,716	-	-	337,900	1,987,616
Community development	3,931,933	473,690	-	307,141	4,712,764
Parks and recreation	396,844	-	-	-	396,844
Debt service:					
Principal	687,582	-	-	51,310	738,892
Interest	127,401	-	-	19,604	147,005
Expenditures	103,354	-	135,273	6,206	244,833
Capital outlays	234,205	-	196,740	1,198,287	1,629,232
Total expenditures	<u>23,610,997</u>	<u>978,377</u>	<u>332,856</u>	<u>2,876,017</u>	<u>27,798,247</u>
Excess of revenues over (under) expenditures	<u>3,253,288</u>	<u>(52,604)</u>	<u>(328,587)</u>	<u>(1,247,781)</u>	<u>1,624,316</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other funds	18,258	222,783	490,000	1,373,195	2,104,236
Transfers to other funds	(2,397,563)	-	-	(537,479)	(2,935,042)
Proceeds of refunding debt	4,965,000	-	-	-	4,965,000
Premium on bond issue	63,741	-	-	-	63,741
Refunding debt redeemed	(4,932,825)	-	-	-	(4,932,825)
Issuance of debt	-	-	7,220,000	2,110,706	9,330,706
Sale of capital assets	-	-	-	-	-
Total other financing sources (uses)	<u>(2,283,389)</u>	<u>222,783</u>	<u>7,710,000</u>	<u>2,946,422</u>	<u>8,595,816</u>
Net change in fund balances	969,899	170,179	7,381,413	1,698,641	10,220,132
Fund balances beginning of year	<u>8,548,868</u>	<u>118,002</u>	<u>-</u>	<u>2,527,146</u>	<u>11,194,016</u>
Fund balances end of year	<u>\$ 9,518,767</u>	<u>\$ 288,181</u>	<u>\$ 7,381,413</u>	<u>\$ 4,225,787</u>	<u>\$ 21,414,148</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, 2012**

Net change in fund balances - total governmental funds	\$ 10,220,132
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$2,267,212 exceeded depreciation of (\$1,902,590) in the current period.	
	364,622
Governmental funds report construction in progress as expenditures. However, in the statement of activities, the cost of those assets is allocated to capital assets.	
	363,932
Interest earned on capital project bond proceeds is revenue in the governmental funds, but is a reduction of cost of the capital project for the statement of net assets.	
	(4,270)
Certain imposed nonexchange revenues were not recognized in the governmental funds because they were not available at June 30, 2012. The change in this account balance is a reconciling item for this statement.	
	(255,926)
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 (\$242,485) is reported with governmental activities, less \$12,371 allocated to business-type activities.	
	(230,114)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
	5,671,717
Issuance of debt is revenue in the governmental funds, but the debt increases long-term liabilities in the statement of net assets.	
	(14,295,706)
Costs for the issuance of debt are expenditures in the governmental fund, but are deferred charges in the statement of net assets.	
	6,206
The discount portion of debt is an expenditure in the governmental funds in the year of the debt issuance, but is an asset in the statement of net assets and is amortized over the life of the debt. The discount for the issuance of debt is \$36,523. 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 \$98,750.	
	135,273
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 (\$63,741) with the amortization of the premium in the amount of \$2,380. 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 \$95,916.	
	34,555
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 (\$231,005), increase in accrued interest of (\$96,289), increase in pension obligation (\$162,750), amortization of deferred charges of (\$84,617), and amortization of debt premium of \$10,534.	
	<u>(564,127)</u>
Change in net assets of governmental activities	<u>\$ 1,446,294</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, 2012**

	Business-type Activities Enterprise Funds			
	Major Fund			Governmental Activities- Internal Service Funds
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
<b>ASSETS</b>				
Current assets:				
Pooled cash and cash equivalents	\$ -	\$ 199,545	\$ 199,545	\$ -
Non-pooled cash and cash equivalents	130,616	-	130,616	364,790
Accounts receivable	-	-	-	-
Total current assets	130,616	199,545	330,161	364,790
Noncurrent assets:				
Capital assets:				
Land and construction in progress	-	260,159	260,159	-
Depreciable capital assets, net	3,459,527	164,783	3,624,310	-
Total noncurrent assets	3,459,527	424,942	3,884,469	-
Total assets	\$ 3,590,143	\$ 624,487	\$ 4,214,630	\$ 364,790
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 26,837	\$ -	\$ 26,837	\$ -
Accrued salaries	-	-	-	-
Incurred, not yet reported	-	-	-	57,242
Accrued landfill closing costs	-	-	-	-
Compensated absences	-	4,461	4,461	-
Total current liabilities	26,837	4,461	31,298	57,242
Noncurrent liabilities:				
Accrued landfill closing costs	-	-	-	-
Compensated absences	-	25,278	25,278	-
Total noncurrent liabilities	-	25,278	25,278	-
Total liabilities	26,837	29,739	56,576	57,242
<b>NET ASSETS</b>				
Invested in capital assets	3,459,527	424,942	3,884,469	-
Unrestricted	103,779	169,806	273,585	307,548
Total net assets	\$ 3,563,306	\$ 594,748	\$ 4,158,054	\$ 307,548
Adjustment to reflect the consolidation of applicable internal service fund activities to enterprise funds			(277,595)	
Net assets of business-type activities			\$ 3,880,459	

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, 2012**

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Major Fund			
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 346,430	\$ 161,220	\$ 507,650	\$ -
Employee contributions	-	-	-	377,344
Employer contributions	-	-	-	1,268,396
Insurance reimbursement	-	-	-	-
Other income	-	-	-	-
	<u>346,430</u>	<u>161,220</u>	<u>507,650</u>	<u>1,645,740</u>
<b>OPERATING EXPENSES</b>				
Salaries, wages and benefits	-	639,148	639,148	-
Lease expense	-	-	-	-
Management contract	214,784	-	214,784	-
Maintenance	31,627	137,117	168,744	-
Marketing	61,355	-	61,355	-
Operations	26,175	35,736	61,911	-
Utilities	73,243	5,599	78,842	-
Administrative	-	12,344	12,344	411,787
Supplies	8,821	6,004	14,825	-
Depreciation	131,157	40,317	171,474	-
Claims expense	-	-	-	1,476,647
	<u>547,162</u>	<u>876,265</u>	<u>1,423,427</u>	<u>1,888,434</u>
Operating income (loss)	<u>(200,732)</u>	<u>(715,045)</u>	<u>(915,777)</u>	<u>(242,694)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	426	-	426	209
Gain on sale of equipment	-	-	-	-
	<u>426</u>	<u>-</u>	<u>426</u>	<u>209</u>
Total nonoperating revenues (expenses)	<u>426</u>	<u>-</u>	<u>426</u>	<u>209</u>
Income (loss) before transfers	<u>(200,306)</u>	<u>(715,045)</u>	<u>(915,351)</u>	<u>(242,485)</u>
Transfers in	125,000	705,806	830,806	-
Transfers out	-	-	-	-
Capital contributions	-	-	-	-
Transfer of net liabilities to component unit	-	-	-	-
	<u>125,000</u>	<u>705,806</u>	<u>830,806</u>	<u>-</u>
Total transfers and capital contributions	<u>125,000</u>	<u>705,806</u>	<u>830,806</u>	<u>-</u>
Change in net assets	<u>(75,306)</u>	<u>(9,239)</u>	<u>(84,545)</u>	<u>(242,485)</u>
Net assets (liabilities) beginning of year	<u>3,638,612</u>	<u>603,987</u>	<u>4,242,599</u>	<u>550,033</u>
Net assets end of year	<u>\$ 3,563,306</u>	<u>\$ 594,748</u>	<u>\$ 4,158,054</u>	<u>\$ 307,548</u>
Adjustment to reflect the consolidation of applicable internal service fund activities to enterprise funds			<u>(12,371)</u>	
Change in net assets of business-type activities			<u>\$ (96,916)</u>	

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

**City of Hopkinsville, Kentucky**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2012**

	Business-type Activities			Governmental Activities- Internal Service Funds
	Enterprise Funds			
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 346,430	\$ 161,220	\$ 507,650	\$ 1,645,740
Other cash receipts	-	-	-	-
Cash payments to employees for services	-	(658,513)	(658,513)	-
Cash payments to suppliers	(419,444)	(204,492)	(623,936)	(426,085)
Cash payments for claims	-	-	-	(1,551,559)
Net cash provided by (used in) operating activities	<u>(73,014)</u>	<u>(701,785)</u>	<u>(774,799)</u>	<u>(331,904)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	125,000	705,806	830,806	-
Transfers out	-	-	-	-
Net cash provided by (used in) noncapital financing activities	<u>125,000</u>	<u>705,806</u>	<u>830,806</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from sale of capital assets	-	-	-	-
Payments for capital acquisitions	(5,655)	(29,220)	(34,875)	-
Net cash provided by (used in) capital and related financing activities	<u>(5,655)</u>	<u>(29,220)</u>	<u>(34,875)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>				
Interest on investments	426	-	426	209
Net cash provided by (used in) investment activities	<u>426</u>	<u>-</u>	<u>426</u>	<u>209</u>
Net increase (decrease) in cash and cash equivalents	46,757	(25,199)	21,558	(331,695)
Cash and cash equivalents, beginning of year	83,859	224,744	308,603	696,485
Cash and cash equivalents, end of year	<u>\$ 130,616</u>	<u>\$ 199,545</u>	<u>\$ 330,161</u>	<u>\$ 364,790</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (200,732)	\$ (715,045)	\$ (915,777)	\$ (242,694)
Adjustments:				
Depreciation	131,157	40,317	171,474	-
(Increase) decrease in assets:				
Accounts receivable	-	-	-	-
Increase (decrease) in liabilities:				
Accounts payable	(3,439)	(7,691)	(11,130)	-
Accrued liabilities	-	(19,366)	(19,366)	(89,210)
Net cash provided by (used in) operating activities	<u>\$ (73,014)</u>	<u>\$ (701,785)</u>	<u>\$ (774,799)</u>	<u>\$ (331,904)</u>
<b>NONCASH CAPITAL ACTIVITIES</b>				
Equipment purchased	<u>\$ 5,655</u>	<u>\$ 29,220</u>	<u>\$ 34,875</u>	<u>\$ -</u>

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

**City of Hopkinsville, Kentucky**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2012**

	<u>Pension Trust Funds</u>
<b>ASSETS</b>	
Cash	\$ 26
Accrued interest receivable	-
Money market	80,528
Corporate bond funds	<u>756,336</u>
 Total assets	 <u>\$ 836,890</u>
<b>LIABILITIES</b>	
Administration fees payable	<u>\$ -</u>
 Total liabilities	 <u>-</u>
<b>NET ASSETS</b>	
Held in trust for pension benefits	<u>836,890</u>
 Total liabilities and net assets	 <u>\$ 836,890</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, 2012**

	<u>Pension Trust Funds</u>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 400,000
Plan members	<u>-</u>
Total contributions	400,000
Investment earnings:	
Net appreciation (depreciation) in fair value of investments	6,331
Interest	23,370
Miscellaneous receipts	<u>-</u>
Total investment earnings	29,701
Less investment expense	<u>9,218</u>
Net investment earnings	<u>20,483</u>
Total additions	<u>420,483</u>
<b>DEDUCTIONS</b>	
Benefits	<u>394,006</u>
Change in net assets	26,477
Net assets beginning of year	<u>810,413</u>
Net assets end of year	<u><u>\$ 836,890</u></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, 2012**

	Major			Total
	Hopkinsville Water Environment Authority	Hopkinsville Solid Waste Authority	Hopkinsville Surface and Storm Water Utility	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,846,622	\$ 316,780	\$ 1,580,827	\$ 7,744,229
Receivables	1,025,971	477,046	385,706	1,888,723
Inventory	337,353	-	-	337,353
Restricted assets:				
Cash and cash equivalents	1,422,283	4,228,776	2,082,824	7,733,883
Deferred charges	309,322	56,172	84,168	449,662
Notes receivable	451,312	-	-	451,312
Other receivables	42,473	-	-	42,473
Capital assets, net of depreciation:				
Land and construction in progress	7,235,463	667,102	1,060,745	8,963,310
Depreciable capital assets	<u>93,690,299</u>	<u>2,096,788</u>	<u>3,189,279</u>	<u>98,976,366</u>
<b>Total assets</b>	<b><u>\$ 110,361,098</u></b>	<b><u>\$ 7,842,664</u></b>	<b><u>\$ 8,383,549</u></b>	<b><u>\$ 126,587,311</u></b>
<b>LIABILITIES</b>				
Current portion of long-term debt	\$ 3,136,693	\$ 172,083	\$ 126,000	\$ 3,434,776
Current portion of capital lease obligation	1,843	-	-	1,843
Christian Co. Fiscal Court loan payable	199,083	-	-	199,083
Customer deposits	69,273	-	-	69,273
Accrued interest	275,167	-	7,292	282,459
Accounts payable	474,528	181,676	23,873	680,077
Accrued salaries and compensated absences	226,946	121,696	-	348,642
Construction retainage payable	309,671	-	-	309,671
Construction contracts payable	1,071,221	-	-	1,071,221
Long-term liabilities:				
Compensated absences	69,245	151,818	-	221,063
Revenue bonds payable (net of current portion)	23,293,909	-	-	23,293,909
KIA - loans payable (net of current portion)	33,037,991	-	-	33,037,991
KLC - loans payable (net of current portion)	-	1,519,818	4,586,677	6,106,495
Accrued landfill closure costs	-	10,502,641	-	10,502,641
KY Rural Finance loans payable (net of current portion)	1,730,500	-	-	1,730,500
City of Hopkinsville - loan payable	<u>109,959</u>	<u>-</u>	<u>-</u>	<u>109,959</u>
<b>Total liabilities</b>	<b><u>64,006,029</u></b>	<b><u>12,649,732</u></b>	<b><u>4,743,842</u></b>	<b><u>81,399,603</u></b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	38,069,047	1,071,989	1,327,820	40,468,856
Net assets, unrestricted	<u>8,286,022</u>	<u>(5,879,057)</u>	<u>2,311,887</u>	<u>4,718,852</u>
<b>Total net assets</b>	<b><u>46,355,069</u></b>	<b><u>(4,807,068)</u></b>	<b><u>3,639,707</u></b>	<b><u>45,187,708</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 110,361,098</u></b>	<b><u>\$ 7,842,664</u></b>	<b><u>\$ 8,383,549</u></b>	<b><u>\$ 126,587,311</u></b>

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

**City of Hopkinsville, Kentucky**  
**Statement of Activities**  
**Component Units**  
**For the Year Ended June 30, 2012**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Hopkinsville Water Environment Authority	Hopkinsville Solid Waste Authority	Hopkinsville Surface and Stormwater Utility	Totals
<b>EXPENSES</b>								
Hopkinsville Water Environment Authority	\$ (11,596,490)	\$ 12,900,584	\$ -	\$ 109,971	\$ 1,414,065	\$ -	\$ -	\$ 1,414,065
Hopkinsville Solid Waste Authority	(5,064,838)	5,052,541	-	-	-	(12,297)	-	(12,297)
Hopkinsville Surface and Stormwater Utility	(1,119,745)	1,175,512	226,122	-	-	-	281,889	281,889
Total expenses	<u>\$ (17,781,073)</u>	<u>19,128,637</u>	<u>226,122</u>	<u>109,971</u>	<u>1,414,065</u>	<u>(12,297)</u>	<u>281,889</u>	<u>1,683,657</u>
<b>GENERAL REVENUES:</b>								
					30,994	1,440	12,669	45,103
					2,342	25,000	-	27,342
					<u>225,948</u>	<u>81,519</u>	<u>-</u>	<u>307,467</u>
					<u>259,284</u>	<u>107,959</u>	<u>12,669</u>	<u>379,912</u>
					-	2,614,030	-	2,614,030
					<u>-</u>	<u>-</u>	<u>286,553</u>	<u>286,553</u>
					1,673,349	2,709,692	581,111	4,964,152
					<u>44,681,720</u>	<u>(7,516,760)</u>	<u>3,058,596</u>	<u>40,223,556</u>
					<u>\$ 46,355,069</u>	<u>\$ (4,807,068)</u>	<u>\$ 3,639,707</u>	<u>\$ 45,187,708</u>

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

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

**1. Summary of Significant Accounting Policies**

The financial statements of the City of Hopkinsville (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 (HWEA), doing business as Hopkinsville Water Environment Authority, is responsible for sewerage and water service for City residents. The City's governing body appoints HWEA'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 HWEA's debt remains with the government. HWEA 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 9<sup>th</sup> 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	390,000
Library Board	177,000
Emergency Communications Center	580,555

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.

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.

Continued

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

**1. Summary of Significant Accounting Policies, continued**

**B. Basis of Presentation, continued**

**Fund Financial Statements**

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

**C. Fund Accounting**

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

**Governmental Funds**

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

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

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.

City Hall/Police Department Construction – The City Hall/Police Department Construction Fund is a major fund of the City. This fund was established to account for the construction of the city administration building and the renovation of the current city administration building to become the police department.

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.

Section 108 CDBG Loan Fund – established to account for the renovation of the various parks within the City.

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. The Tie Breaker Family Aquatic Fund is a major fund of 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**

*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 Intergovernmental	Licenses and permits

Deferred Revenue

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

Expenses/Expenditures

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

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

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

**1. Summary of Significant Accounting Policies, continued**

**F. Deposits and Investments**

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

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

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

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

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

**L. Interest Capitalization**

Interest costs are capitalized as part of this historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose.

**M. 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.

**N. 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, 2012.

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

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

**1. Summary of Significant Accounting Policies, continued**

**N. Compensated Absences, continued**

For governmental funds, the liability is not reported unless the compensated absences have 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.

**O. 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.

**P. Bond Premiums/Discounts/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.

**Q. 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.

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

**1. Summary of Significant Accounting Policies, continued**

**Q. Fund Balance, continued**

- 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.
- 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.

**R. 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 \$4,807,068 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.

Continued

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

**1. Summary of Significant Accounting Policies, continued**

**S. 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.

**T. 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, 2012 for the City. See Note 23 for the special item related to Solid Waste.

**U. Estimates**

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

**V. 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.

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

**2. Deposits and Investments**

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

**A. Deposits**

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires banks doing business with the City to pledge securities in an amount to exceed uninsured funds on deposit by the City. At year-end, the carrying amount of the City's deposits was \$19,064,177 and the bank balance was \$19,871,642. 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, 2012, the City did not have any deposited funds exposed to custodial credit risk.

At year-end, the carrying amount of the deposits for HWEA, discretely presented component unit, was \$7,266,876 and the bank balance was \$7,304,651. Of this bank balance, Federal Depository Insurance covered \$697,291, with the balance covered by collateral held by the pledging bank. Therefore, as of June 30, 2012, HWEA 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 \$897,069 and the bank balance was \$999,026. 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, 2012, 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 \$1,580,827 and the bank balance was \$1,589,158. Of this bank balance, Federal Depository Insurance covered \$250,000, with the balance of \$1,339,158 covered by collateral held by financial institutions' agents in the Storm Water's name. Therefore, as of June 30, 2012, 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, 2012</u>	Average Credit Quality/Rating	Fair Value (Primary Gov't)	Fair Value (Pension Trust Fund)	Average Maturity
Insured Deposit Program MGDI	N/A	\$ 241,734	\$ -	N/A
Insured Deposit Program MGDW	N/A	165,931	-	N/A
Planters Bank Trust Money Market	N/A	-	80,554	N/A
American Century GNMA	N/A	-	134,427	N/A
Fidelity GNMA	N/A	-	150,244	N/A
SIT US Government Securities	AAA	-	149,505	3.20 Years
T Rowe Price Inflated Protected Securities	N/A	-	45,708	N/A
T Rowe Price Treasury LT	N/A	-	48,520	N/A
Vanguard Inflation Protected Securities	AAA	-	45,661	9.40 Years
Vanguard Long Term Treasury	AAA	-	48,071	N/A
Vanguard Short Term Federal Invest	AAA	-	134,200	2.40 Years
Sterling Capital Prime Money Market	N/A	14,603	-	50 Days
Sterling Capital Intermediate US Gov't Fund	AAA	179,360	-	4.90 Years
Sterling Capital Short Term Bond Instl Fund	A	4,910	-	2.39 Years
Sterling Capital Total Return Bond Instl Fund	AAA	121,904	-	7.34 Years
American Century Diversified Bond Fund	AAA	11,428	-	6.20 Years
Sterling Capital Corporate Fund	BBB	7,562	-	11.80 Years
Federated US Gov't Securities Fund	AAA	29,339	-	N/A
Federated Total Return Gov't Fund	AAA	10,122	-	N/A
Ishares Barclays US Treasury Inflation Protected	AA	5,985	-	N/A
Doubleline Total Return Bond Fund	AAA	37,225	-	4.27 Years
Metropolitan West Total Return Bond	AAA	59,903	-	6.57 Years
Prudential Short Term Corporate Bond Fund	A	40,590	-	N/A
Ishares Barclays 7-10 Yr Treasury Bond Fund	AA	32,379	-	N/A
Principal Preferred Securities Fund	BBB	9,775	-	N/A
Vanguard GNMA Fund	AAA	<u>49,662</u>	<u>-</u>	4.50 Years
Total Credit Risk Debt Securities		<u>1,022,412</u>	<u>836,890</u>	
US Government Agencies (FNMA)		<u>112,241</u>	<u>-</u>	
Total Debt Securities		<u>\$ 1,134,653</u>	<u>\$ 836,890</u>	

The investments for Solid Waste consisted of the following:

<u>Investments as of June 30, 2012</u>	Average Credit Quality/Rating	Carrying Value	Fair Value	Average Maturity
First American Treasury Obligations Money Market Fund	AAA	\$ 3,648,488	\$ 3,648,488	55 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, 2012</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	\$ 2,082,824	\$ 2,082,824	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, 2012, 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 HWEA's expendable restricted asset accounts are as follows:

Bond and interest redemption	\$ 36,921
Construction	1,359,888
Unemployment	<u>25,474</u>
 Total restricted assets	 <u>\$ 1,422,283</u>

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

Landfill closure costs	\$ 3,648,487
Projects and expansion costs	<u>580,289</u>
 Total restricted assets	 <u>\$ 4,228,776</u>

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

General obligation bond proceeds	<u>\$ 2,082,824</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, 2012, 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.

Continued

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

**4. Capital Assets**

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<b><u>Governmental Activities</u></b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,615,621	\$ -	\$ -	\$ 1,615,621
Construction in Progress	-	233,957	-	233,957
Total Capital Asset Not Being Depreciated	<u>1,615,621</u>	<u>233,957</u>	<u>-</u>	<u>1,849,578</u>
Capital Assets Being Depreciated:				
Buildings & Improvements	7,790,376	188,606	-	7,978,982
Equipment	7,230,472	1,024,330	-	8,254,802
Infrastructure	16,802,452	649,213	-	17,451,665
Land Improvements	5,067,865	185,191	-	5,253,056
Vehicles	2,006,350	348,432	-	2,354,782
Total Capital Assets Being Depreciated	<u>38,897,515</u>	<u>2,395,772</u>	<u>-</u>	<u>41,293,287</u>
Less Accumulated Depreciation:				
Buildings & Improvements	3,000,923	276,847	-	3,277,770
Equipment	4,173,412	505,150	-	4,678,562
Infrastructure	9,328,462	658,760	-	9,987,222
Land Improvements	1,477,277	227,202	-	1,704,479
Vehicles	1,769,965	234,631	-	2,004,596
Total Accumulated Depreciation	<u>19,750,039</u>	<u>1,902,590</u>	<u>-</u>	<u>21,652,629</u>
Total	<u>\$ 20,763,097</u>	<u>\$ 727,139</u>	<u>\$ -</u>	<u>\$ 21,490,236</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	\$ 220,347
Public Safety	474,254
Public Works	899,779
Community Development	196,304
Parks and Recreation	<u>111,906</u>
Total Depreciation Expense	<u>\$ 1,902,590</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, 2012, is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<b><u>Enterprise Fund Activities</u></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	616,755	5,655	-	622,410
Vehicles	95,953	29,220	-	125,173
Total Capital Assets Being Depreciated	<u>4,670,645</u>	<u>34,875</u>	<u>-</u>	<u>4,705,520</u>
Less Accumulated Depreciation:				
Buildings and improvements	530,908	99,988	-	630,896
Equipment	311,976	65,642	-	377,618
Vehicles	66,852	5,844	-	72,696
Total Accumulated Depreciated	<u>909,736</u>	<u>171,474</u>	<u>-</u>	<u>1,081,210</u>
Total	<u>\$ 4,021,068</u>	<u>\$ (136,599)</u>	<u>\$ -</u>	<u>\$ 3,884,469</u>

Depreciation expense (including amortization of capitalized assets) of the enterprise funds for the year ended June 30, 2012, was \$171,474.

A summary of HWEA's enterprise fund property, plant and equipment at June 30, 2012, is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<b><u>Enterprise Fund Activities</u></b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,605,344	\$ -	\$ -	\$ 1,605,344
Construction in progress	10,805,314	6,713,836	11,889,031	5,630,119
Total Capital Assets Not Being Depreciated	<u>12,410,658</u>	<u>6,713,836</u>	<u>11,889,031</u>	<u>7,235,463</u>
Capital Assets Being Depreciated:				
Structures and Improvements	129,681,034	12,563,149	-	142,244,183
Equipment	9,850,794	32,705	-	9,883,499
Vehicles	681,064	142,522	34,740	788,846
Total Capital Assets Being Depreciated	<u>140,212,892</u>	<u>12,738,376</u>	<u>34,740</u>	<u>152,916,528</u>
Less Accumulated Depreciation:				
Structures and Improvements	48,002,491	2,742,674	-	50,745,165
Equipment	7,540,824	390,522	-	7,931,346
Vehicles	547,946	32,178	30,406	549,718
Total Accumulated Depreciation	<u>56,091,261</u>	<u>3,165,374</u>	<u>30,406</u>	<u>59,226,229</u>
Total	<u>\$ 96,532,289</u>	<u>\$ 16,286,838</u>	<u>\$ 11,893,365</u>	<u>\$ 100,925,762</u>

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

**4. Capital Assets, continued**

Depreciation expense (including amortization of capitalized assets) for HWEA for the year ended June 30, 2012, was \$3,165,374.

A summary of Solid Waste enterprise fund property, plant and equipment at June 30, 2012, is as follows:

<u>Enterprise Fund Activities</u>	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital Assets Not Being Depreciated:				
Land	\$ 615,582	\$ -	\$ -	\$ 615,582
Construction in Progress	835,462	552,491	1,336,433	51,520
Total Capital Assets Not Being Depreciated	<u>1,451,044</u>	<u>552,491</u>	<u>1,336,433</u>	<u>667,102</u>
Capital Assets Being Depreciated:				
Buildings	184,605	-	-	184,605
Equipment	4,756,304	159,792	347,452	4,568,644
Land Improvements	579,723	1,367,807	-	1,947,530
Total Capital Assets Being Depreciated	<u>5,520,632</u>	<u>1,527,599</u>	<u>347,452</u>	<u>6,700,779</u>
Less Accumulated Depreciation:				
Buildings and Improvements	41,361	5,340	-	46,701
Equipment	4,088,713	263,399	347,452	4,004,660
Land Improvements	547,456	5,174	-	552,630
Total Accumulated Depreciation	<u>4,677,530</u>	<u>273,913</u>	<u>347,452</u>	<u>4,603,991</u>
Total	<u>\$ 2,294,146</u>	<u>\$ 1,806,177</u>	<u>\$ 1,336,433</u>	<u>\$ 2,763,890</u>

Depreciation expense (including amortization of capitalized assets) for Solid Waste for the year ended June 30, 2012, was \$273,913.

A summary of Storm Water enterprise fund property, plant and equipment at June 30, 2012, is as follows:

<u>Enterprise Fund Activities</u>	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital Assets Not Being Depreciated:				
Land	\$ 418,023	\$ 75,856	\$ -	\$ 493,879
Construction in Progress	767,529	182,970	383,633	566,866
Total Capital Assets Not Being Depreciated	<u>1,185,552</u>	<u>258,826</u>	<u>383,633</u>	<u>1,060,745</u>
Capital Assets Being Depreciated:				
Infrastructure	3,001,864	333,958	-	3,335,822
Less Accumulated Depreciation:				
Infrastructure	17,553	128,990	-	146,543
Total	<u>\$ 4,169,863</u>	<u>\$ 463,794</u>	<u>\$ 383,633</u>	<u>\$ 4,250,024</u>

Depreciation expense (including amortization of capitalized assets) for Storm Water for the year ended June 30, 2012 was \$128,990.

**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.** Plan members participating in CERS on or before August 31, 2008, are required to contribute 5% or 8% of their annual creditable compensation for nonhazardous and hazardous position plan members, respectively. For plan members who began participating in CERS on or after September 1, 2008, the contribution rates are 6% and 9%, respectively. The City is required to contribute at an actuarially determined rate. The current rate is 18.96% of annual covered payroll for nonhazardous and 35.76% 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, 2012, 2011, and 2010, was \$3,322,608, \$2,918,628, and \$2,634,309, respectively, equal to the required contribution for these years. HWEA's contribution to CERS for the three years ended June 30, 2012,

Continued

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

**6. Employee Retirement Systems, continued**

2011, and 2010, was \$508,581, \$425,654, and \$399,392, respectively, equal to the required contribution for these years. The Solid Waste's contributions to CERS for the three years ended June 30, 2012, 2011, and 2010, was \$272,609, \$249,546 and \$217,664, 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 28 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 June 14, 2012. 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, 2012, actuarial valuation of the Fund, a suggested employer contribution to be applied to the fiscal year beginning July 1, 2012, 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 2.75% COLA, the amortization period selected by the actuary is 2017 (5 years from 2012), 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	\$ 761,220
Interest on net pension obligation	110,528
Adjustment to annual required contribution	<u>(424,939)</u>
Annual pension cost	446,809
Contributions made	<u>(400,000)</u>
Increase in net pension obligation	46,809
Net pension obligation beginning of year	<u>1,842,132</u>
 Net pension obligation end of year	 <u><b>\$1,888,941</b></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>
6/30/10	468,949	85%	1,650,936
6/30/11	475,255	84%	1,726,131
6/30/12	446,809	90%	1,888,941

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**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) entry age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a)/c</b>
1/1/2012	\$1,024,444	\$3,919,278	\$2,894,834	26.1	\$ -	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	01/01/12
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

**7. Interfund Receivables and Payables**

There were no interfund receivables or payables between the governmental funds at June 30, 2012.



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

**8. Construction Commitment**

At June 30, 2012, the City had three material contracts pending. The first material contract pending was the construction of a city administration building and renovation of the current business administration building to become the police department. The second material contract pending was the renovation of the parks within the City. The third material contract pending was the rails to trails project. The total expenditures for the city administration building and renovation of the current administration building at the end of the year were \$330 thousand with approximately \$7.89 million remaining for the project. The total expenditures for the renovation of the parks within the City at the end of the year were \$50 thousand with approximately \$1.45 million remaining for the project. The total expenditures for the rails to trails project at the end of the year were approximately \$35 thousand with approximately \$1.57 million remaining for the project.

At June 30, 2012, HWEA had one material project pending, the decommissioning of the Northside Wastewater Treatment Plant. The total expenditures for the contract at the end of the year were approximately \$4.65 million with approximately \$2.35 million 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, 2012.

At June 30, 2012, the Storm Water had two material contracts pending. For the South Fork Dry Dam project, total expenditures for the contract were approximately \$332 thousand. This project is currently in the planning stage with no current contract commitments. For the Morningside/Brentwood project, total expenditures were approximately \$123 thousand with approximately \$67 thousand remaining for the project.

**9. Short-Term Debt**

The City of Hopkinsville issued no short-term debt during the year ended June 30, 2012.

On March 16, 2010, HWEA 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 HWEA for the year-ended June 30, 2012, was as follows:

	Principal Outstanding July 1, 2011	Additions	Reductions	Principal Outstanding June 30, 2012
Christian Co Fiscal Court	\$ 199,083	\$ -	\$ -	\$ 199,083
Total	<u>\$ 199,083</u>	<u>-</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, 2012, the following changes occurred in long-term liabilities:

	Principal Outstanding July 1, 2011	Additions	Reductions	Principal Outstanding June 30, 2012	Due Within One Year
<b>Governmental Activities:</b>					
Compensated absences	\$ 1,299,488	\$ 250,176	\$ 19,172	\$ 1,530,492	\$ 39,283*
Net Pension Obligation	1,726,191	162,750	-	1,888,941	-
General Obligation Bond	5,958,011	12,185,000	4,312,815	13,830,196	646,035
Revenue Bond	1,187,221	-	1,187,221	-	-
Notes Payable	201,422	2,110,706	171,680	2,140,448	261,250
Plus: Unamortized premium	79,885	63,741	12,915	130,711	-
Less: Unamortized discount	-	(36,523)	(728)	(35,795)	-
Total Governmental Activities	<u>\$ 10,452,218</u>	<u>\$ 14,735,850</u>	<u>\$ 5,703,075</u>	<u>\$ 19,484,993</u>	<u>\$ 946,568</u>
<b>Business Type</b>					
<b>Activities-City:</b>					
Compensated Absences	<u>\$ 25,873</u>	<u>\$ 3,866</u>	<u>\$ -</u>	<u>\$ 29,739</u>	<u>\$ 4,461*</u>
<b>Business Type</b>					
<b>Activities-HWEA:</b>					
Compensated Absences	\$ 210,327	\$ 85,864	\$ -	\$ 296,191	\$ 226,946*
Revenue Bonds	26,452,567	-	1,404,000	25,048,567	1,455,000
Notes Payable	28,482,016	10,345,538	2,272,978	36,554,576	1,681,693
Capital Leases	12,895	-	11,052	1,843	1,843
Less: Unamortized bond discount	<u>(323,910)</u>	<u>-</u>	<u>(29,819)</u>	<u>(294,091)</u>	<u>-</u>
Total Business Type Activities-HWEA	<u>\$ 54,833,895</u>	<u>\$ 10,431,402</u>	<u>\$ 3,658,211</u>	<u>\$ 61,607,086</u>	<u>\$ 3,365,482</u>
<b>Business Type</b>					
<b>Activities-Solid Waste:</b>					
Compensated Absences	\$ 198,321	\$ -	\$ 19,711	\$ 178,610	\$ 26,792*
Capital Leases-vehicles	102,451	-	102,451	-	-
Revenue bonds	1,811,667	-	152,500	1,659,167	172,083
Plus: Unamortized premium	36,547	-	3,814	32,733	-
Accrued Landfill Closing Costs	<u>13,116,671</u>	<u>-</u>	<u>2,614,030</u>	<u>10,502,641</u>	<u>-</u>
Total Business Type Activities-Solid Waste	<u>\$ 15,265,657</u>	<u>\$ -</u>	<u>\$ 2,892,506</u>	<u>\$ 12,373,151</u>	<u>\$ 198,875</u>

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

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

	<u>Principal Outstanding July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2012</u>	<u>Due Within One Year</u>
<b>Business Type</b>					
<b><u>Activities-Storm Water:</u></b>					
General Obligation Bond	\$ 4,834,898	\$ -	\$ 122,221	\$ 4,712,677	\$ 126,000
Total Business Type Activities- Storm Water	\$ 4,834,898	\$ -	\$ 122,221	\$ 4,712,677	\$ 126,000
Total Business Type Activities- Component Units	\$ 74,934,450	\$ 10,431,402	\$ 6,672,938	\$ 78,692,914	\$ 3,690,357

\*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. For governmental activities, the net pension obligation and net other postemployment benefit obligation 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>Business Type Activities-HWEA:</u>	<u>Matures</u>	<u>Rate</u>	<u>2012</u>
Water Sewer Facilities-1998-\$1,650,000	10/01/2021	3.75% to 4.90%	\$ 647,500
Water Sewer Facilities-2005A-\$25,635,000	10/01/2026	3.375% to 4.00%	20,425,000
Water Sewer Facilities-2005B-\$1,545,000	10/01/2017	3.00% to 3.75%	750,000
Water Sewer Facilities-2010-\$3,588,000	04/01/2030	3.20% to 4.40%	<u>3,226,066</u>
			25,048,566
Less: Unamortized bond discount			<u>(294,091)</u>
	Total		<u>\$ 24,754,475</u>
 <u>Business Type Activities-Solid Waste:</u>			
Kentucky Bond Corporation			
Revenue, 2011 Series A & B - \$1,835,000	01/01/2021	3.00 to 4.00%	\$ 1,659,167
Plus: Unamortized bond premium			<u>32,733</u>
	Total		<u>\$ 1,691,900</u>

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

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

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

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Interest</u>	<u>Business Type Activities HWEA/Solid Waste</u>	<u>Interest</u>
2013	\$ -	\$ -	\$ 1,627,083	\$ 1,028,868
2014	-	-	1,684,583	969,762
2015	-	-	1,749,583	907,832
2016	-	-	1,814,583	841,355
2017	-	-	1,882,083	770,165
2018-2022	-	-	9,269,252	2,735,456
2023-2027	-	-	8,070,000	844,136
2028-2030	-	-	610,567	48,320
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$26,707,734</b>	<b>\$ 8,145,894</b>

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 2012 for the construction of a city administration building and the renovation of the current city administration building to become the police department. 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. General obligation bonds were issued in 2012 for the purpose of refinancing bonds issued in 2004 and 2006 for the purpose of funding certain project improvements. 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>2012</u>
Kentucky League of Cities Funding GO, 2003 Series B - \$1,034,000	08/01/2017	4%-5.3%	\$ 537,000
Kentucky League of Cities Funding GO, 2004 Series A - \$1,250,000	03/01/2016	3%-3.75%	489,029
Kentucky Bond Corporation GO, 2010 First Series A - \$1,055,000	01/01/2019	2.50%	779,167
Kentucky Bond Corporation GO, 2011 Series A - \$4,965,000	02/01/2026	2%-3.125%	4,805,000

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

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

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2012</u>
Kentucky Bond Corporation GO, 2011 Series B - \$7,220,000	02/01/2037	2%-3.75%	<u>7,220,000</u>
			13,830,196
Plus: Unamortized bond premium			130,711
Less: Unamortized bond discount			<u>(35,795)</u>
	Total		<u>\$13,925,112</u>
<u>Business Type Activities-Storm Water:</u>	<u>Matures</u>	<u>Rate</u>	<u>2012</u>
KLC Bond - \$5,100,000	2038	Variable	<u>\$ 4,712,677</u>

The City and HWEA 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, 2012, was:

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2012</u>
US Bank - \$358,334	03/05/2013	2.25%	\$ 81,052
Oshkosh Capital - \$610,706	04/12/2017	3%	559,396
Section 108 Guaranteed Loan - \$1,500,000	08/31/2031	2.50%	<u>1,500,000</u>
	Total		<u>\$2,140,448</u>
<u>Business Type Activities-HWEA:</u>			
KIA Fund A Wastewater - \$9,190,530	2016	1.2%	\$ 1,873,856
KIA Fund B Water Plant - \$5,000,000	2026	1.9%	2,686,193
KIA Fund A Phase II - \$3,167,272	2018	1.8%	1,080,176
KIA Fund A Wastewater - \$240,264	2017	1.2%	65,558
KIA Fund A - \$614,521	2020	0.4%	249,234
KIA Fund A Phase III - \$834,891	2021	3.8%	432,180
KIA Fund A Phase IV - \$4,583,635	2026	1.0%	3,277,757
KIA Fund C Wastewater	2018	4.00 to 4.25%	345,000
KIA Fund F Drinking Water - \$1,513,593	2028	1.0%	1,234,538
KIA Fund A Phase V - \$2,469,924	2027	1.0%	1,902,959
KIA Fund F Water - \$3,887,432	2028	3.0%	3,388,403
KIA Fund A-loan not closed yet			9,300,263
KIA Fund F-loan not closed yet			8,790,000

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

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

<u>Business Type Activities-HWEA:</u>	<u>Matures</u>	<u>Rate</u>	<u>2012</u>
KY Rural Finance	2025	3.125 to 4.50%	412,500
KY Rural Finance	2029	2.28 to 4.405%	1,406,000
City of Hopkinsville - \$120,000	Undetermined	N/A	<u>109,959</u>
	<b>Total</b>		<b><u>\$ 36,554,576</u></b>

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

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities Principal</u>	<u>Interest</u>	<u>Enterprise Fund Component Units Principal</u>	<u>Interest</u>
2013	\$ 907,285	\$ 484,514	\$ 1,807,693	\$ 527,602
2014	850,382	444,991	1,845,451	493,394
2015	864,932	423,111	1,884,952	457,904
2016	818,278	400,691	1,636,653	421,733
2017	750,850	380,371	1,394,009	390,447
2018-2022	2,663,917	1,669,706	6,125,703	1,514,088
2023-2027	2,750,000	1,327,060	5,449,031	844,941
2028-2032	3,120,000	895,359	19,720,420	362,673
2033-2037	3,245,000	364,350	1,153,090	159,901
2038	<u>-</u>	<u>-</u>	<u>250,251</u>	<u>7,311</u>
<b>Total</b>	<b><u>\$15,970,644</u></b>	<b><u>\$6,390,153</u></b>	<b><u>\$ 41,267,253</u></b>	<b><u>\$ 5,179,994</u></b>

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.

**Defeased Bonds Outstanding**

In prior years, the City and HWEA issued refunding bonds to defease certain outstanding bonds, for the purpose of consolidation and to achieve debt service savings. The City and HWEA 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

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

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

maturity if they are not callable issues. On June 30, 2012, the amount of bonds outstanding for HWEA considered defeased is undeterminable.

**11. Interest Capitalization**

Total interest cost incurred for the City for the year ended June 30, 2012 was \$147,005. Interest capitalized was \$-0-, and interest expensed was \$147,005 for the year ended June 30, 2012.

Total interest cost incurred for HWEA for the year ended June 30, 2012 was \$1,673,723. Interest cost capitalized was \$201,089, and interest cost expensed was \$1,472,634 for the year ended June 30, 2012.

Total interest cost incurred for the Storm Water was \$78,426 for the year ended June 30, 2012. Interest cost capitalized was \$40,617 and interest cost expensed was \$37,809 for the year ended June 30, 2012.

**12. Deferred Charges**

The bond issuance costs, premiums, and discounts 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. Total amortization of the bond issuance costs for the year was \$86,744. Of the \$86,744, amortization of the bond issuance costs that was charged to operations during the year was \$84,618. Amortization of bond issuance costs that was capitalized during the year was \$2,126. Amortization of the premium that was included in operations during the year was \$12,915. Amortization of the discount that was capitalized during the year was \$728.

The bond issuance costs and discounts associated with the issuance of the revenue bonds payable for HWEA 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 \$6,544. Amortization of the premium that was included in operations during the year was \$3,814.

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.

Continued

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

**13. Leases**

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

In June 2007, HWEA 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:

	<u>2012</u>
Equipment under capital leases	\$ 44,949
Less accumulated depreciation	<u>(21,351)</u>
Total	<u>\$ 23,598</u>

The future minimum lease obligations as of June 30, 2012, were as follows:

2013	\$ 1,843
------	----------

The Storm Water leases the watershed lakes known as Lake Tandy, Lake Morris, and Lake Boxley located in Christian County, Kentucky from the Hopkinsville Water Environment Authority (HWEA). 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.

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 HWEA 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 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.



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

**14. 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, 2012, consisted of the following:

	Transfer From:						Total
	General Fund	Grants Fund	Tie Breaker Family Fund	City Hall/PD Construction Fund	Nonmajor Governmental Type	Nonmajor Enterprise Type	
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 18,258	\$ -	\$ 18,258
Grants Fund	222,783	-	-	-	-	-	222,783
Tie Breaker Family Fund	125,000	-	-	-	-	-	125,000
City Hall/PD Construction	-	-	-	-	490,000	-	490,000
Nonmajor Governmental Type	1,373,195	-	-	-	-	-	1,373,195
Nonmajor Enterprise Type	<u>676,585</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,221</u>	<u>-</u>	<u>705,806</u>
Total	<u>\$ 2,397,563</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 537,479</u>	<u>\$ -</u>	<u>\$ 2,935,042</u>

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

	Noncash
Transfers from Nonmajor Governmental Fund to: Grounds Maintenance Fund	<u>\$ 29,221</u>

**15. Interfund Balances**

There were no interfund receivables or payables between the governmental funds at June 30, 2012.

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

**16. Fund Balance Classification**

The composition of the fund balance classifications at June 30, 2012 are as follows:

	Major Funds			Other	Total
	General	Grants Fund	City Hall/PD Construction	Governmental Funds	
Fund balances:					
Nonspendable:	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for:					
Grants	-	288,181	-	-	288,181
City Hall/PD Construction	-	-	7,381,413	-	7,381,413
Municipal road aid	-	-	-	290,949	290,949
Community development block grant	-	-	-	-	-
Police incentive	-	-	-	17,430	17,430
Fire incentive	-	-	-	19,375	19,375
Urban development action grant	-	-	-	809,962	809,962
Expendable trust	-	-	-	522,585	522,585
Cable tv work order	-	-	-	-	-
Capital fund	-	-	-	593,811	593,811
Section 108 CDBG fund	-	-	-	1,435,203	1,435,203
Nonexpendable trust	-	-	-	401,759	401,759
Committed:					
General government	248,657	-	-	-	248,657
Public safety	700	-	-	134,713	135,413
Public works	-	-	-	-	-
Community development	513,471	-	-	-	513,471
Parks and recreation	50,995	-	-	-	50,995
Assigned:	-	-	-	-	-
Unassigned:	<u>8,704,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,704,944</u>
Total fund balances:	<u>\$ 9,518,767</u>	<u>\$ 288,181</u>	<u>\$ 7,381,413</u>	<u>\$ 4,225,787</u>	<u>\$ 21,414,148</u>

**Note:** The City has \$598,830 of encumbrances of operating funds in major and nonmajor funds at June 30, 2012, which will be rolled over into the next fiscal year.

Continued

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

**17. 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.

**18. 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.

**19. 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.

**20. Risk Management**

The City and its component units are 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 and its component units carry 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.

The City is a defendant in various matters of litigation of which management and legal counsel do not anticipate any material effect on the financial statements.

Continued

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

**20. 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, 2012, the claims liability was \$57,242 (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>
2010-2011	\$ 67,099	\$1,277,705	\$1,198,352	\$ 146,452
2011-2012	\$ 146,452	\$1,462,351	\$1,551,561	\$ 57,242

HWEA'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 HWEA. At June 30, 2012, the claims liability was \$30,074. 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>
2010-2011	\$ 59,220	\$ 871,797	\$ 834,326	\$ 96,691
2011-2012	\$ 96,691	\$ 257,191	\$ 323,808	\$ 30,074

**21. Closure and Postclosure Care Costs**

State and federal laws and regulations require the City's Solid Waste 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 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 reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The \$10,502,641 reported as Solid Waste landfill closure and postclosure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of approximately 75 percent of the capacity of the landfill. These amounts are based on what it would cost to perform all closure and postclosure care in 2012 as estimated by the consulting engineer. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

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

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

This total amount of closure and postclosure costs are estimated to be \$13,671,473, leaving \$3,168,832 remaining to be recognized. During the year ended June 30, 2012, the Solid Waste completed a construction project for the vertical expansion of the landfill's capacity which resulted in a significant increase in the life of the landfill. The remaining life of the current landfill is estimated to be 15 years.

The City of Hopkinsville and the Solid Waste are required by state and federal laws and regulations to provide assurances that financial resources will be available to provide for landfill closure and postclosure care. The Solid Waste is in compliance with these requirements, as determined by the Kentucky Natural Resources and Environmental Protection Cabinet, by entering into a trust agreement that calls for scheduled future annual funding contributions to the trust. At June 30, 2012, \$3,648,487 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.

**22. Related Party Transactions**

The following are related party transactions by the City with its three discretely presented component units: Hopkinsville Water Environment Authority (HWEA), 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.

Solid Waste paid HWEA \$64,719 for providing customer billing and collection services and \$160,960 for leachate purification services for the year ended June 30, 2012. Accounts payable for these services at June 30, 2012 was \$16,743.

The City assesses a percentage of Solid Waste revenue as payment in lieu of taxes. The Solid Waste paid the City \$160,313 for payment in lieu of taxes for the year ended June 30, 2012. At June 30, 2012, accounts payable for these payments was \$14,320.

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, 2012, the total amount paid to the Finance Department was \$10,200. The Storm Water has contracted services with Community and Development Services for administration services and code enforcement for \$13,333 each month. For the year ended June 30, 2012, the total amount paid to Community and Development Services for the services was \$159,996.

Continued

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

**22. Related Party Transactions, continued**

HWEA provides utility billing and cash collection services for the Storm Water. HWEA charges the Storm Water for these services. For the year ended June 30, 2012, the expense for billing and collection services totaled \$58,901. At June 30, 2012, accounts payable for these services was \$4,746.

The Storm Water had notes payable with the City for the purpose of funding operating expenses. The Storm Water had a short-term liability from the City's UDAG Revolving Loan Fund for pre-funding of operating expenses for the Storm Water, which was due immediately upon receipt of bond proceeds. The interest rate on this loan was 2%. This short-term liability was paid off during the fiscal year.

During the year ended June 30, 2012, the following changes occurred in short-term liabilities:

	<u>Principal Outstanding July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2012</u>
UDAG Revolving Loan	\$ 45,000	\$ -	\$ 45,000	\$ -
Total	<u>\$ 45,000</u>	<u>\$ -</u>	<u>\$ 45,000</u>	<u>\$ -</u>

**23. Special Item**

The Solid Waste completed construction of a vertical expansion of the landfill which adds approximately 15 years of life to the landfill. Since the remaining life of the landfill increased so significantly, this decreased the liability being accrued for landfill closure and postclosure care costs at June 30, 2012. The resulting gain is considered a special item on the statement of revenues, expenses, and changes in net assets.

**24. 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, 2012**

**1. SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll ( c )</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
1/1/2006	\$ 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
1/1/2012	1,024,444	3,919,278	2,894,834	26.1	-	N/A

**2. SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2008	701,402	56.7%
2009	701,402	57.5%
2010	761,220	53.0%
2011	761,220	52.5%
2012	761,220	52.5%

**3. NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Valuation Date	01/01/12
Valuation Method	Entry age normal funding method (an aggregate variation)
Amortization method and period	Amortization period selected by actuary is five (5) 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, 2012**

	Budgeted Amounts		Actual (See <b>Note A</b> )	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
<b>REVENUES</b>				
Taxes	\$ 4,618,000	\$ 4,618,000	\$ 4,443,831	\$ (174,169)
Licenses and permits	17,773,000	18,495,000	18,864,318	369,318
Fines and forfeits	35,000	35,000	39,908	4,908
Intergovernmental	2,076,593	2,327,430	2,339,561	12,131
Charges for services	-	-	-	-
Interest	32,000	32,000	35,504	3,504
Other revenues	839,039	839,039	784,032	(55,007)
	<u>25,373,632</u>	<u>26,346,469</u>	<u>26,507,154</u>	<u>160,685</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Administrative	1,509,138	1,538,208	1,443,174	95,034
Tax department	488,262	491,262	407,146	84,116
Information technology	617,883	505,714	476,951	28,763
Legislative	309,494	316,994	308,578	8,416
Public safety:				
Police	6,523,585	6,546,531	6,121,550	424,981
Emergency communications	935,890	935,890	912,200	23,690
Fire	6,047,264	6,311,049	6,233,396	77,653
Other	400,000	400,000	400,000	-
Public works:				
Administrative	218,468	226,599	184,913	41,686
Street	909,903	937,653	789,183	148,470
Service center	325,030	325,594	315,025	10,569
Other	375,000	375,000	324,295	50,705
Community development	3,333,040	3,549,956	3,349,856	200,100
Parks and recreation	403,199	410,707	397,333	13,374
Debt service:				
Principal	687,582	687,582	687,582	-
Interest & finance charges	127,401	127,401	127,401	-
Debt expenditures (refunding)	-	103,354	103,354	-
Capital outlays	-	234,205	234,205	-
	<u>23,211,139</u>	<u>24,023,699</u>	<u>22,816,142</u>	<u>1,207,557</u>
Excess of revenues over (under) expenditures	2,162,493	2,322,770	3,691,012	1,368,242
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Issuance of debt (refunding)	-	4,965,000	4,965,000	-
Discount on debt issuance	-	63,741	63,741	-
Refunding debt redeemed	-	(4,932,825)	(4,932,825)	-
Transfers in	-	-	-	-
Transfers out	(2,535,785)	(2,009,097)	(2,953,633)	(944,536)
	<u>(2,535,785)</u>	<u>(1,913,181)</u>	<u>(2,857,717)</u>	<u>(944,536)</u>
Net change in fund balance	(373,292)	409,589	833,295	423,706
Fund balance beginning of year	8,548,868	8,548,868	8,548,868	-
Fund balance end of year	<u>\$ 8,175,576</u>	<u>\$ 8,958,457</u>	<u>\$ 9,382,163</u>	<u>\$ 423,706</u>



**CITY OF HOPKINSVILLE, KENTUCKY  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
 ON BUDGETARY ACCOUNTING AND CONTROL  
 For the Year Ended June 30, 2012**

**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. The Grants Fund is not required to legally adopt a 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)	\$ 833,295
Adjustments:	
To adjust expenditures for salary accruals	(133,359)
To adjust expenditures for payable accruals	(3,387)
To adjust revenues for tax and license accruals	<u>357,131</u>
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$1,053,680</u>

**Note:** See Note A on the following page as an aid in the reconciliation of the Budgetary Comparison Schedule to the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds.

**City of Hopkinsville, Kentucky**  
**Note to Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2012**

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

	General Fund (Budgetary)	Budgetary to GAAP Adjustments *	Special Revenue Funds	Total
<b>REVENUES</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	26,507,154	26,507,154	-	26,507,154
Adjustments:				
The City budgets for receivables on the cash basis, rather than on the modified accrual basis	-	357,131	-	357,131
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	-	-	-	-
Total revenues as reported on the budgetary comparison schedule	<u>26,507,154</u>	<u>+ 26,864,285</u>	<u>-</u>	<u>26,864,285</u> ^
<b>EXPENDITURES</b>				
Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule	(22,816,142)	(22,816,142)	-	(22,816,142)
Adjustments:				
The City budgets for payables on the cash basis, rather than on the modified accrual basis	-	(3,387)	(8,750)	(12,137)
The City budgets for payroll on the cash basis, rather than on the modified accrual basis	-	(133,359)	-	(133,359)
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	-	-	(649,359)	(649,359)
Total expenditures as reported on the budgetary comparison schedule	<u>(22,816,142)</u>	<u>+ (22,952,888)</u>	<u>(658,109)</u>	<u>(23,610,997)</u> ^
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	18,258	18,258
Transfers out	(2,953,633)	(2,953,633)	556,070	(2,397,563)
Proceeds of refunding debt	4,965,000	4,965,000	-	4,965,000
Discount on bond issue	63,741	63,741	-	63,741
Refunding debt redeemed	<u>(4,932,825)</u>	<u>(4,932,825)</u>	<u>-</u>	<u>(4,932,825)</u>
Total other financing sources (uses)	<u>(2,857,717)</u>	<u>+ (2,857,717)</u>	<u>574,328</u>	<u>(2,283,389)</u> ^
Excess of revenues and other financing sources over/ (under) expenditures and other financing uses	<u>\$ 833,295</u>	<u>+ \$ 1,053,680</u>	<u>** \$ (83,781)</u>	<u>\$ 969,899</u> ^
Reclassifications:				
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	<u>\$ (556,070)</u>	<u>\$ -</u>	<u>\$ 556,070</u>	<u>\$ -</u>

\* Includes general fund on budgetary basis and adjustments to convert to GAAP basis

+ As reported on the budgetary comparison schedule

^ As reported on the statement of revenues, expenditures, and changes in fund balance-governmental funds

\*\* As reported on the notes to required supplementary information (RSI) on budgetary accounting and control

**City of Hopkinsville, Kentucky  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2012**

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>				
Pooled cash and cash equivalents	\$ 949,586	\$ 593,811	\$ -	\$ 1,543,397
Non-pooled cash and cash equivalents	133,375	1,449,888	78,580	1,661,843
Investments	389,210	-	323,179	712,389
Loans receivable	212,884	-	-	212,884
Due from component unit	109,959	-	-	109,959
Other receivables	<u>10,211</u>	<u>-</u>	<u>-</u>	<u>10,211</u>
 Total assets	 <u>\$ 1,805,225</u>	 <u>\$ 2,043,699</u>	 <u>\$ 401,759</u>	 <u>\$ 4,250,683</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 10,211	\$ 14,685	\$ -	\$ 24,896
Interfund payables	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total liabilities	 <u>10,211</u>	 <u>14,685</u>	 <u>-</u>	 <u>24,896</u>
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	-
Restricted	1,660,301	2,029,014	401,759	4,091,074
Committed	134,713	-	-	134,713
Assigned	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total fund balances	 <u>1,795,014</u>	 <u>2,029,014</u>	 <u>401,759</u>	 <u>4,225,787</u>
 Total liabilities and fund balances	 <u>\$ 1,805,225</u>	 <u>\$ 2,043,699</u>	 <u>\$ 401,759</u>	 <u>\$ 4,250,683</u>

**City of Hopkinsville, Kentucky**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2012**

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Intergovernmental	\$ 1,435,127	\$ -	\$ -	\$ 1,435,127
Investment income	39,702	-	4,995	44,697
Donations	-	20,000	-	20,000
Other	117,560	-	10,852	128,412
	<u>1,592,389</u>	<u>20,000</u>	<u>15,847</u>	<u>1,628,236</u>
Total revenues				
<b>EXPENDITURES</b>				
Current:				
General government	12,993	58,591	-	71,584
Public safety	483,890	400,095	-	883,985
Public works	148,783	189,117	-	337,900
Community development	293,952	13,189	-	307,141
Debt Service:				
Principal	-	51,310	-	51,310
Interest	7,030	12,574	-	19,604
Expenditures	-	6,206	-	6,206
Capital outlay	587,581	610,706	-	1,198,287
	<u>1,534,229</u>	<u>1,341,788</u>	<u>-</u>	<u>2,876,017</u>
Total expenditures				
Excess of revenues over (under) expenditures	<u>58,160</u>	<u>(1,321,788)</u>	<u>15,847</u>	<u>(1,247,781)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	219,392	1,153,803	-	1,373,195
Transfers out	-	(537,479)	-	(537,479)
Issuance of debt	-	2,110,706	-	2,110,706
	<u>219,392</u>	<u>2,727,030</u>	<u>-</u>	<u>2,946,422</u>
Total other financing sources (uses)				
Net change in fund balances	277,552	1,405,242	15,847	1,698,641
Fund balances beginning of year	<u>1,517,462</u>	<u>623,772</u>	<u>385,912</u>	<u>2,527,146</u>
Fund balances end of year	<u>\$ 1,795,014</u>	<u>\$ 2,029,014</u>	<u>\$ 401,759</u>	<u>\$ 4,225,787</u>

**City of Hopkinsville, Kentucky  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2012**

	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	\$ 290,949	\$ -	\$ 17,430	\$ 19,375	\$ 487,119	\$ 134,713	\$ -	\$ -	\$ 949,586
Non-pooled cash and cash equivalents	-	-	-	-	-	-	133,375	-	133,375
Investments	-	-	-	-	-	-	389,210	-	389,210
Loans receivable	-	-	-	-	212,884	-	-	-	212,884
Due from component unit	-	-	-	-	109,959	-	-	-	109,959
Other receivables	-	10,211	-	-	-	-	-	-	10,211
<b>Total assets</b>	<b><u>\$ 290,949</u></b>	<b><u>\$ 10,211</u></b>	<b><u>\$ 17,430</u></b>	<b><u>\$ 19,375</u></b>	<b><u>\$ 809,962</u></b>	<b><u>\$ 134,713</u></b>	<b><u>\$ 522,585</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,805,225</u></b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Accounts payable	\$ -	\$ 10,211	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,211
Interfund payables	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b><u>-</u></b>	<b><u>10,211</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>10,211</u></b>
<b>FUND BALANCES</b>									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted	290,949	-	17,430	19,375	809,962	-	522,585	-	1,660,301
Committed	-	-	-	-	-	134,713	-	-	134,713
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b><u>290,949</u></b>	<b><u>-</u></b>	<b><u>17,430</u></b>	<b><u>19,375</u></b>	<b><u>809,962</u></b>	<b><u>134,713</u></b>	<b><u>522,585</u></b>	<b><u>-</u></b>	<b><u>1,795,014</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 290,949</u></b>	<b><u>\$ 10,211</u></b>	<b><u>\$ 17,430</u></b>	<b><u>\$ 19,375</u></b>	<b><u>\$ 809,962</u></b>	<b><u>\$ 134,713</u></b>	<b><u>\$ 522,585</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,805,225</u></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, 2012**

	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	\$ 705,835	\$ 282,922	\$ 209,401	\$ 236,969	\$ -	\$ -	\$ -	\$ -	\$ 1,435,127
Investment income	1,018	-	-	-	-	-	38,684	-	39,702
Other	-	-	-	-	14,096	93,464	-	10,000	117,560
<b>Total revenues</b>	<u>706,853</u>	<u>282,922</u>	<u>209,401</u>	<u>236,969</u>	<u>14,096</u>	<u>93,464</u>	<u>38,684</u>	<u>10,000</u>	<u>1,592,389</u>
<b>EXPENDITURES</b>									
General government	-	-	-	-	-	-	12,993	-	12,993
Public safety	-	-	210,832	236,197	-	36,861	-	-	483,890
Public works	148,783	-	-	-	-	-	-	-	148,783
Community development	-	275,892	-	-	-	-	-	18,060	293,952
Debt Service:									
Interest	-	7,030	-	-	-	-	-	-	7,030
Capital Outlay	<u>587,581</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>587,581</u>
<b>Total expenditures</b>	<u>736,364</u>	<u>282,922</u>	<u>210,832</u>	<u>236,197</u>	<u>-</u>	<u>36,861</u>	<u>12,993</u>	<u>18,060</u>	<u>1,534,229</u>
Excess of revenues over (under) expenditures	<u>(29,511)</u>	<u>-</u>	<u>(1,431)</u>	<u>772</u>	<u>14,096</u>	<u>56,603</u>	<u>25,691</u>	<u>(8,060)</u>	<u>58,160</u>
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	100,000	-	-	-	100,000	14,978	-	4,414	219,392
Transfer out	-	-	-	-	-	-	-	-	-
Issuance of debt	-	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>14,978</u>	<u>-</u>	<u>4,414</u>	<u>219,392</u>
Net change in fund balances	70,489	-	(1,431)	772	114,096	71,581	25,691	(3,646)	277,552
Fund balances beginning 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>
Fund balances end of year	<u>\$ 290,949</u>	<u>\$ -</u>	<u>\$ 17,430</u>	<u>\$ 19,375</u>	<u>\$ 809,962</u>	<u>\$ 134,713</u>	<u>\$ 522,585</u>	<u>\$ -</u>	<u>\$ 1,795,014</u>

**City of Hopkinsville, Kentucky  
 Budgetary Comparison Schedule  
 Municipal Road Aid Special Revenue Fund  
 For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>REVENUES</b>				
Intergovernmental	\$ 649,500	\$ 705,500	\$ 705,835	\$ 335
Other	-	-	-	-
Interest	<u>500</u>	<u>500</u>	<u>1,018</u>	<u>518</u>
Total Revenues	<u>650,000</u>	<u>706,000</u>	<u>706,853</u>	<u>853</u>
<b>EXPENDITURES</b>				
Public works	865,785	401,268	148,783	252,485
Capital outlay	<u>-</u>	<u>587,581</u>	<u>587,581</u>	<u>-</u>
Total expenditures	<u>865,785</u>	<u>988,849</u>	<u>736,364</u>	<u>252,485</u>
Excess of revenues over/(under) expenditures	<u>(215,785)</u>	<u>(282,849)</u>	<u>(29,511)</u>	<u>253,338</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	100,000	100,000
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Net change in fund balance	(215,785)	(282,849)	70,489	353,338
Fund balance beginning of year	<u>220,460</u>	<u>220,460</u>	<u>220,460</u>	<u>-</u>
Fund balance end of year	<u>\$ 4,675</u>	<u>\$ (62,389)</u>	<u>\$ 290,949</u>	<u>\$ 353,338</u>

**City of Hopkinsville, Kentucky**  
**Combining Balance Sheet**  
**Nonmajor Capital Projects Funds**  
**June 30, 2012**

	<u>Capital Fund</u>	<u>Section 108 CDBG Loan Fund</u>	<u>Total Nonmajor Capital Projects Funds</u>
<b>ASSETS</b>			
Pooled cash and cash equivalents	\$ 593,811	\$ -	\$ 593,811
Non-pooled cash and cash equivalents	-	1,449,888	1,449,888
Loans receivable	<u>-</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 593,811</u>	 <u>\$ 1,449,888</u>	 <u>\$ 2,043,699</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	<u>-</u>	<u>14,685</u>	<u>14,685</u>
 Total liabilities	 <u>\$ -</u>	 <u>\$ 14,685</u>	 <u>\$ 14,685</u>
<b>FUND BALANCES</b>			
Nonspendable	-	-	-
Restricted	593,811	1,435,203	2,029,014
Committed	-	-	-
Assigned	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
 Total fund balances	 <u>593,811</u>	 <u>1,435,203</u>	 <u>2,029,014</u>
 Total liabilities and fund balances	 <u>\$ 593,811</u>	 <u>\$ 1,449,888</u>	 <u>\$ 2,043,699</u>



**City of Hopkinsville, Kentucky**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Capital Projects Funds**  
**For the Year Ended June 30, 2012**

	<u>Capital Fund</u>	<u>Section 108 CDBG Loan Fund</u>	<u>Total Nonmajor Capital Projects Funds</u>
<b>REVENUES</b>			
Donations	\$ 20,000	\$ -	\$ 20,000
Investment income	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>20,000</u>	<u>-</u>	<u>20,000</u>
<b>EXPENDITURES</b>			
Current:			
General government	-	58,591	58,591
Public safety	400,095	-	400,095
Public works	189,117	-	189,117
Community development	13,189	-	13,189
Debt service:			
Principal	51,310	-	51,310
Interest	12,574	-	12,574
Expenditures	-	6,206	6,206
Capital outlay	<u>610,706</u>	<u>-</u>	<u>610,706</u>
Total expenditures	<u>1,276,991</u>	<u>64,797</u>	<u>1,341,788</u>
Excess of revenues over (under) expenditures	<u>(1,256,991)</u>	<u>(64,797)</u>	<u>(1,321,788)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	1,153,803	-	1,153,803
Transfers out	(537,479)	-	(537,479)
Issuance of debt	<u>610,706</u>	<u>1,500,000</u>	<u>2,110,706</u>
Total other financing sources (uses)	<u>1,227,030</u>	<u>1,500,000</u>	<u>2,727,030</u>
Net change in fund balances	(29,961)	1,435,203	1,405,242
Fund balances beginning of year	<u>623,772</u>	<u>-</u>	<u>623,772</u>
Fund balances end of year	<u>\$ 593,811</u>	<u>\$ 1,435,203</u>	<u>\$ 2,029,014</u>

**CITY OF HOPKINSVILLE, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2012**

<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 B09-MY-210002 B10-MC-210002	\$ 109,204 77,231 <u>96,487</u> 282,922
Community Development Block Grants - Section 108 Loan Guarantees	14.248	B-10-MC-21-002	50,112
Home Investment Partnerships Program (Passed through Kentucky Housing Corp.)	14.239	GF11-0351-02	106,958
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-10-SP-KY-0104	142,180
<b>Department of Homeland Security</b>			
Homeland Security Grant Program (Passed through Kentucky Office of Homeland Security)	97.067	PO2-094-1200002942-1	16,155
Hazard Mitigation Grant (Passed through Kentucky Office of Emergency Management)	97.039	HMGP DR-1818-0011	192,140
<b>Department of Justice</b>			
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	GL-KWY-111	8,736
Gang Resistance Education and Training (Passed through Institute for Intergovernmental Research)	16.737		200
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0370	208,310 *
<b>Department of Transportation</b>			
State and Community Highway Safety (Passed through Kentucky Transportation Cabinet)	20.600	PT-12-24	15,953
<b>Department of Energy</b>			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE0001485	<u>114,881</u> *
<b>Total Federal Expenditures</b>			<b><u>\$ 1,138,547</u></b>

\*Denotes major program

**CITY OF HOPKINSVILLE, KENTUCKY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2012**

**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>\$ 39,104</u>



**& CO. - HOPKINSVILLE LLP**

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FIRM ID # 61-1313802

LEONARD F. ADCOCK, CPA  
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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, 2012, which collectively comprise the City of Hopkinsville, Kentucky's basic financial statements and have issued our report thereon dated January 30, 2013. 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**

Management of City of Hopkinsville, Kentucky is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered 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 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 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*.

We noted certain matters that we reported to management of City of Hopkinsville, Kentucky, in a separate letter dated January 30, 2013.

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. - Chartered, LLP*

Hopkinsville, Kentucky  
January 30, 2013



**& CO. - HOPKINSVILLE LLP**

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**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, 2012. The City of Hopkinsville, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Hopkinsville, Kentucky's management. Our responsibility is to express an opinion on the City of Hopkinsville, Kentucky's compliance based on our audit.

City of Hopkinsville's basic financial statements include the operations of Hopkinsville Water Environment Authority (a discretely presented component unit), which received \$4,744,109 in federal awards which is not included in the schedule during the year ended June 30, 2012. 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 each of its major federal programs for the year ended June 30, 2012.

### **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. - Chartered, LLP*

Hopkinsville, Kentucky  
January 30, 2013

**CITY OF HOPKINSVILLE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2012**

**Section I – Summary of Auditor’s Results**

*Financial Statements*

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   None reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

<u>CFDA Number:</u>	<u>Name of Federal Program or Cluster:</u>
16.710	Department of Justice – ARRA - Public Safety Partnership and Community Policing Grants
81.128	Department of Energy – ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II – Financial Statement Findings**

- No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

- No matters were reported.



**CITY OF HOPKINSVILLE**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2012**

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