

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



**For the Year Ended
June 30, 2013**

**CITY OF HOPKINSVILLE
HOPKINSVILLE, KENTUCKY**

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INDEPENDENT AUDITOR'S REPORTS

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Honorable Mayor
and City Council
City of Hopkinsville, Kentucky
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedule, and budgetary comparison information on pages 4-15, page 72, pages 73-75, and page 80 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hopkinsville, Kentucky's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, capital assets, 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the

To the Honorable Mayor
and City Council
City of Hopkinsville, Kentucky
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audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2014, on our consideration of the City of Hopkinsville, Kentucky'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 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* in considering the City of Hopkinsville, Kentucky's internal control over financial reporting and compliance.

York, Neel + Co. - Hopkinsville, KY

Hopkinsville, Kentucky
January 30, 2014

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, 2013. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the financial statements (pages 16-28) provided in this document.

I. Financial Highlights

- The City's assets exceeded liabilities at the close of the fiscal year by \$31.3 million (net position). This amount includes \$6.84 million that are restricted to specific projects by laws, regulations, or contractual agreements. A total of \$3.89 million of resources are unrestricted and are available to fund the City's outstanding obligations and future programs.
- The City's total net position increased \$3.11 million this year. Net position of governmental activities increased \$3.57 million and net position of business-type activities decreased by \$456 thousand.
- As of June 30, 2013, the City's governmental funds reported combined ending fund balances of \$19.2 million, a decrease of \$2.25 million from the prior year. Approximately \$8.2 million, 42.57% of this total amount, is unassigned and available for spending.
- The City's governmental activities total debt decreased overall by \$566 thousand. The debt decreased by \$1.297 million due to the repayment of debt and increased by \$731 thousand due to the issuance of new debt on behalf of a component unit, Solid Waste.

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

The Statement of Activities shows how City net position changed during the past fiscal year. All net position 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 Enterprise, 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 16-17 of this report.

B. Fund Financial Statements

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

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

The City maintains fifteen (15) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and City Hall/Police Department Construction Fund, which are considered to be major funds. Data from the other thirteen (13) governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position 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 18-21 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. The Grounds Maintenance Fund was moved into the General Fund as of July 1, 2012.

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 22-24 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 Position and the Statement of Changes in Fiduciary Net Position. The fiduciary fund financial statements are presented at pages 25-26 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 29-71 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 76-82 of this report.

III. Government-Wide Financial Analysis

As previously indicated, net position 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 \$31.3 million, an increase of \$3.11 million over last year. Of the \$31.3 million, \$20.5 million or 65.5% was net investment in capital assets, and \$4.0 million or 12.7% was unrestricted. Net position of governmental activity funds total \$27.9 million, with \$17.2 million or 61.5% net investment in capital assets and \$3.9 million or 13.9% unrestricted. The unrestricted net position of governmental funds includes fund balances of the General Fund and various special revenue funds. Unrestricted net position 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 position 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 investment in capital assets 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 net investment in capital assets portion and in the restricted portion of net position 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 position; business-type activities report a positive balance in the unrestricted portion of net position. The government as a whole reflects a positive balance.

City of Hopkinsville Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 28,452,912	\$ 23,452,458	\$ 98,680	\$ 52,566	\$ 28,551,592	\$ 23,505,024
Capital assets	<u>25,856,903</u>	<u>21,490,236</u>	<u>3,332,760</u>	<u>3,884,469</u>	<u>29,189,663</u>	<u>25,374,705</u>
Total assets	<u>\$ 54,309,815</u>	<u>\$ 44,942,694</u>	<u>\$ 3,431,440</u>	<u>\$ 3,937,035</u>	<u>\$ 57,741,255</u>	<u>\$ 48,879,729</u>
Long-term liabilities outstanding	\$ 23,737,949	\$ 18,538,425	\$ -	\$ 25,278	\$ 23,737,949	\$ 18,563,703
Other liabilities	<u>2,673,317</u>	<u>2,072,849</u>	<u>6,721</u>	<u>31,298</u>	<u>2,680,038</u>	<u>2,104,147</u>
Total liabilities	<u>\$ 26,411,266</u>	<u>\$ 20,611,274</u>	<u>\$ 6,721</u>	<u>\$ 56,576</u>	<u>\$ 26,417,987</u>	<u>\$ 20,667,850</u>
Net position:						
Net investment in						
Capital assets	\$ 17,171,414	\$ 14,638,231	\$ 3,332,760	\$ 3,884,469	\$ 20,504,174	\$ 18,522,700
Restricted	6,840,801	9,392,938	-	-	6,840,801	9,392,938
Unrestricted	<u>3,886,334</u>	<u>300,251</u>	<u>91,959</u>	<u>(4,010)</u>	<u>3,978,293</u>	<u>296,241</u>
Total net position	<u>\$ 27,898,549</u>	<u>\$ 24,331,420</u>	<u>\$ 3,424,719</u>	<u>\$ 3,880,459</u>	<u>\$ 31,323,268</u>	<u>\$ 28,211,879</u>

The net position of the City's business-type activities total \$3.425 million. Of the net position total, \$3.333 million (97.3%) was net investment in capital assets with an unrestricted fund balance of \$92 thousand (2.7%).

A. Analysis of the City's Operations

The following table provides a summary of the City's operations for the year ended June 30, 2013. Governmental activities increased the City's net position by \$3.567 million, accounting for 115% of the increase in the net position. Business-type activities decreased the City's net position by (\$456 thousand), which was (15%) of the total increase.

City of Hopkinsville – Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services and sales	\$ 2,051,890	\$ 1,792,681	\$ 252,615	\$ 507,650	\$ 2,304,505	\$ 2,300,331
Operating grants/contributions/interest	5,603,305	4,563,052	-	-	5,603,305	4,563,052
Capital grants/contributions	1,321,456	1,046,027	-	-	1,321,456	1,046,027
General revenues:						
Property taxes	5,039,471	4,801,291	-	-	5,039,471	4,801,291
Occupational taxes	13,337,584	12,848,161	-	-	13,337,584	12,848,161
Insurance premium tax	3,789,988	3,391,798	-	-	3,789,988	3,391,798
Franchise tax	293,561	309,740	-	-	293,561	309,740
Transient room tax	326,374	331,319	-	-	326,374	331,319
Investment income	6,016	59,002	486	426	6,502	59,428
Gain on sale of capital assets	-	-	-	-	-	-
Other	<u>18,037</u>	<u>32,420</u>	<u>-</u>	<u>-</u>	<u>18,037</u>	<u>32,420</u>
Total revenues	<u>\$ 31,787,682</u>	<u>\$ 29,175,491</u>	<u>\$ 253,101</u>	<u>\$ 508,076</u>	<u>\$ 32,040,783</u>	<u>\$ 29,683,567</u>

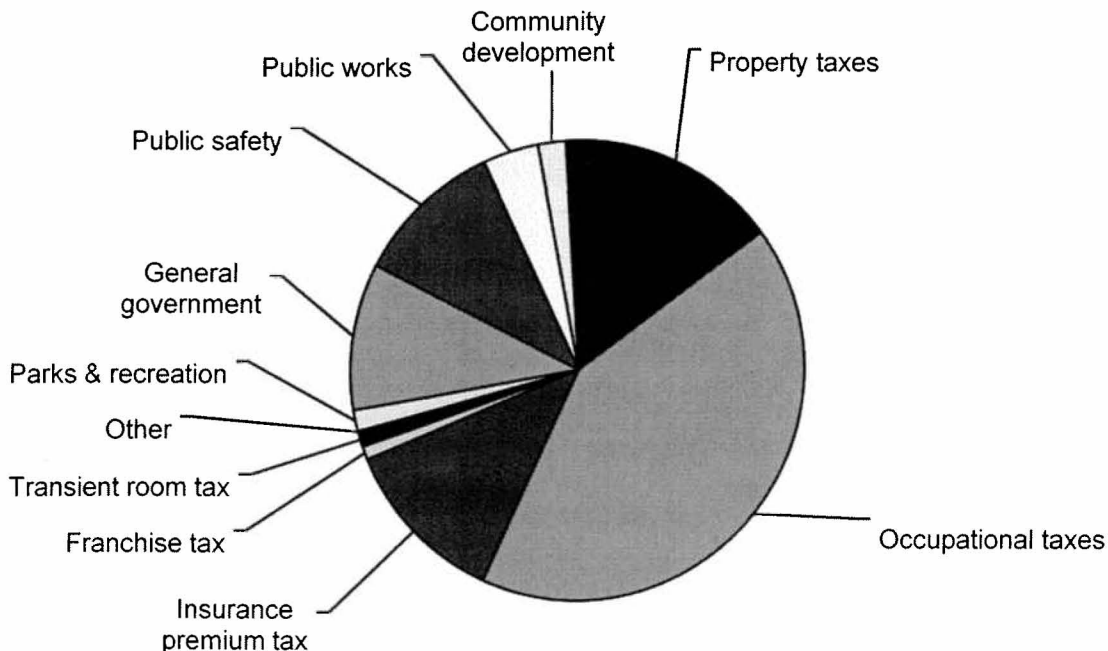
City of Hopkinsville – Changes in Net Position, continued

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Expenses:						
General government	\$ 3,344,160	\$ 3,062,764	\$ -	\$ -	\$ 3,344,160	\$ 3,062,764
Public safety	16,265,313	15,583,252	-	-	16,265,313	15,583,252
Public works	3,212,172	2,254,799	-	-	3,212,172	2,254,799
Community development	4,923,968	5,223,222	-	-	4,923,968	5,223,222
Parks and recreation	537,067	446,441	-	-	537,067	446,441
Interest on long-term debt	130,026	327,913	-	-	130,026	327,913
Tie Breaker Family Aquatic	-	-	516,688	547,162	516,688	547,162
Grounds maintenance	-	-	-	888,636	-	888,636
Total expenses	<u>\$ 28,412,706</u>	<u>\$ 26,898,391</u>	<u>\$ 516,688</u>	<u>\$ 1,435,798</u>	<u>\$ 28,929,394</u>	<u>\$ 28,334,189</u>
Change in net position before Transfers	\$ 3,374,976	\$ 2,277,100	\$ (263,587)	\$ (927,722)	\$ 3,111,389	\$ 1,349,378
Transfers	<u>192,153</u>	<u>(830,806)</u>	<u>(192,153)</u>	<u>830,806</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	3,567,129	1,446,294	(455,740)	(96,916)	3,111,389	1,349,378
Net position, beginning	<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>
Net position, ending	<u>\$ 27,898,549</u>	<u>\$ 24,331,420</u>	<u>\$ 3,424,719</u>	<u>\$ 3,880,459</u>	<u>\$ 31,323,268</u>	<u>\$ 28,211,879</u>

B. Governmental Activities

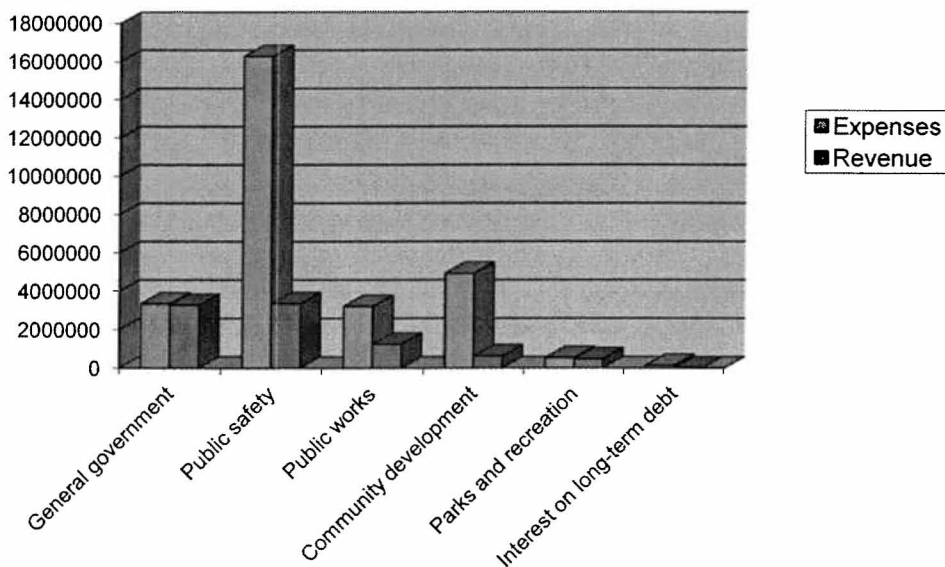
Total revenues for the City's governmental activities total \$31.8 million at June 30, 2013, compared to \$29.2 million last year. Occupational taxes total \$13.3 million or 42.0% of revenue. The second largest category of government revenues, operating grants/contributions/interest, accounts for \$5.6 million, or 17.6% of total revenues. The third largest category of government revenues, property taxes, accounts for \$5.0 million, or 15.9% of revenue. Insurance premium tax totals \$3.8 million, or 11.9% of the total collections. Miscellaneous sources account for \$18 thousand, or 0.06%.

Revenue by Source – Governmental Activities



Current year total expenses of the City's governmental activities total \$28.4 million, compared to \$26.9 million last year. The increase is primarily a result of Grounds Maintenance Fund being moved from an enterprise fund into General Fund. The increase is also explained by wages increasing due to additional employees, a 2% cost of living adjustment given to all employees, hiring seasonal employees for city maintenance, 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 \$16.3 million and account for 57.2% of total expenses. The second largest category of expenses, Community Development, totals \$4.9 million and accounts for 17.3% of expenses. General government is the next largest category and totals \$3.3 million, or 11.8% of expenses. Public Works totals \$3.2 million, or 11.3% of expenses.

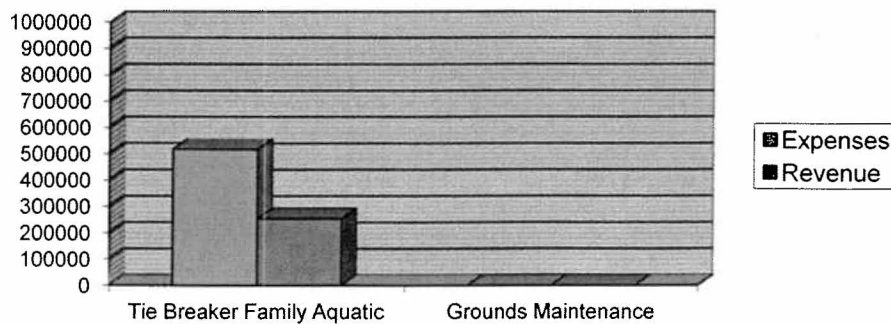
Expenses and Program Revenues – Governmental Activities



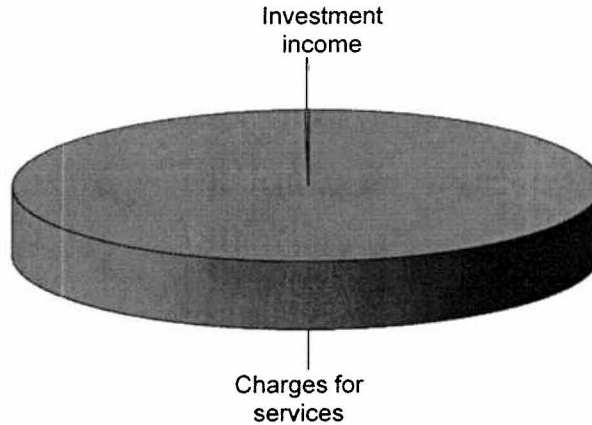
C. Business-Type Activities

Revenue for business-type activities total \$253 thousand this fiscal year compared to \$508 thousand last year. Of this, \$253 thousand or 99.8% was from charges for services and sales. Expenses for business-type activities total \$517 thousand. The largest program in the business-type activities was the operations of the Tie Breaker Family Aquatic Park, which accounts for 100% of business-type expenses. The Grounds Maintenance activity was moved to General Fund as of July 1, 2012.

Expenses and Revenues – Business-Type Activities



Revenue by Source – Business-Type Activities

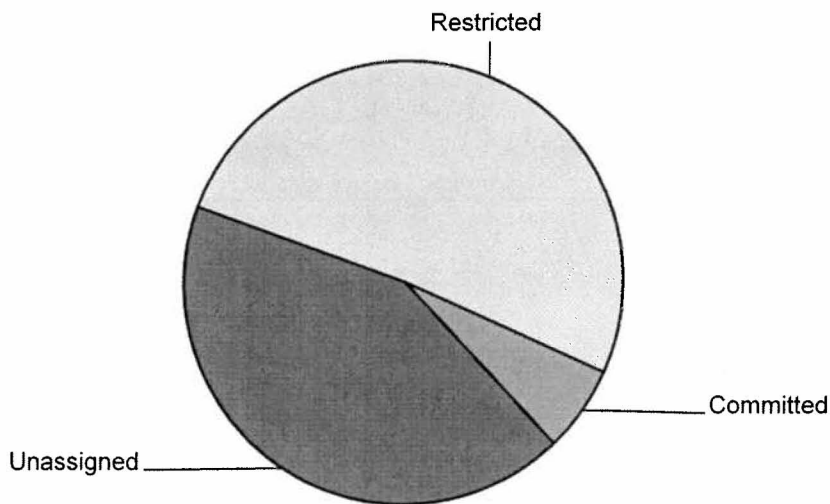


D. Governmental Funds

At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$19.16 million, a decrease of \$2.25 million from the prior year. Approximately 40.9% of this total amount, \$7.84 million, is unassigned fund balance, which is available for spending at the government's discretion. Approximately 48.6%, \$9.30 million, is restricted fund balance. Approximately 4.6%, 883 thousand, has been encumbered or is assigned. The remainder of fund balance, \$1.12 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 a decrease of \$2.25 million from the prior year. This decrease 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 2012-13 fiscal year, the total fund balance in the General Fund was \$9.2 million, which represents a decrease of \$314 thousand from the prior year. Of this total, unassigned fund balance was \$8.2 million and reflected by 29.0% 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 30.7% of total general fund expenditures of \$26.6 million, and total fund balance represents 34.6% 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 position in the proprietary funds equal to \$3.42 million as of June 30, 2013, compared to \$4.16 million last year.

The Water Park has total net position of \$3.42 million, representing a decrease of \$139 thousand from prior year. Of the total net assets, \$3.33 million was net investment in capital assets and \$0.09 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 position of \$-0-, representing a \$595 thousand decrease from last year. This decrease is due to Grounds Maintenance Fund being moved into the General Fund as of July 1, 2012.

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 \$381,355 or 1.4% during the year. The changes in appropriations can be briefly summarized as follows:

- \$ 71,103 increase in general administrative
- \$ 45,000 decrease in tax department
- \$ 45,420 decrease in information technology
- \$ 21,666 increase in legislative
- \$ 34,874 increase in police
- \$ 50 decrease in emergency communications
- \$ 86,780 increase in fire
- \$ - no change in other public safety
- \$ 7,500 increase in public works administrative
- \$ 16,469 decrease in street
- \$ - no change in service center
- \$ - no change in other public works
- \$ 59,591 increase in community development
- \$ 25,860 increase in parks and recreation
- \$ - no change in debt service principal
- \$ - no change in interest and finance charges
- \$ 180,920 increase in capital outlays

The net increase to appropriations of \$381,355 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 \$811,583 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, lower gas and oil prices in the police department, and lower workers compensation in the fire department than budgeted.

V. Capital Asset and Debt Administration

A. Capital Assets

The City's total investment in capital assets is \$29.2 million (net of accumulated depreciation) as of June 30, 2013, which represents an increase of \$3.81 million over 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 \$25.9 million, an increase of \$4.4 million. For business-type activities, investments totaled \$3.3 million, a decrease of \$552 thousand.

City of Hopkinsville – Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,875,780	\$ 1,615,621	\$ -	\$ 260,159	\$ 1,875,780	\$ 1,875,780
Construction in Progress	3,882,164	233,957	-	-	3,882,164	233,957
Land improvements	3,567,764	3,548,577	-	54,098	3,567,764	3,602,675
Buildings	4,506,230	4,701,212	3,199,881	3,272,943	7,706,111	7,974,155
Machinery and equipment	4,227,678	3,926,426	132,879	297,269	4,360,557	4,223,695
Infrastructure	<u>7,797,287</u>	<u>7,464,443</u>	<u>-</u>	<u>-</u>	<u>7,797,287</u>	<u>7,464,443</u>
Total	<u>\$25,856,903</u>	<u>\$21,490,236</u>	<u>\$3,332,760</u>	<u>\$ 3,884,469</u>	<u>\$29,189,663</u>	<u>\$25,374,705</u>

Additional information on City capital assets can be found in Note 4 in the footnotes at pages 48-50.

B. Long-Term Debt

At year-end the City had \$21.90 million in outstanding notes and bonds compared to \$22.47 million at June 30, 2012, a decrease of \$566 thousand. The City, on behalf of a component unit, had total new debt of \$731,749 issued during this fiscal year. The new debt was two separate capital leases for two roll trucks and three trucks. The following table illustrates the changes in outstanding notes, bonds and capital leases:

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
KLC General Obligation bonds	\$ 17,881,516	\$ 18,670,523
KLC Revenue bonds	1,487,083	1,659,167
Due to KY Assoc of Co Leasing	731,749	-
Note payable	<u>1,804,200</u>	<u>2,140,448</u>
Total	<u>\$21,904,548</u>	<u>\$22,470,138</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 \$174,219,253. 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 56-62.

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 2013 was 11.7%. This rate compares unfavorably to state and federal unemployment rates, 8.9% and 7.8%, 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 2012-2013 budget for the City of Hopkinsville was prepared. The beginning general fund balance for fiscal year 2012-2013 was \$9,518,767, and has estimated an ending fund balance of \$9,388,408. 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 9th Street, Hopkinsville, KY 42240. Complete financial statements for the Hopkinsville Surface and Storm Water Utility component unit may be obtained at the entity's administrative office located at 101 North Main Street, Hopkinsville, KY 42240. Complete financial statements for the Hopkinsville Solid Waste Enterprise 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 Position
June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Pooled cash and cash equivalents	\$ 11,303,782	\$ -	\$ 11,303,782	\$ -
Non-pooled cash and cash equivalents	537,461	98,680	636,141	7,176,370
Accounts receivable	-	-	-	2,158,547
Taxes receivable	2,147,052	-	2,147,052	-
Intergovernmental receivables	198,643	-	198,643	-
Other receivables	270,943	-	270,943	438,080
Internal balances	-	-	-	-
Due from component unit	123,726	-	123,726	-
Deferred charges	226,077	-	226,077	416,384
Inventory	-	-	-	255,595
Prepaid insurance	-	-	-	118,008
Restricted assets:				
Due from Component Units				
Due within one year	306,422	-	306,422	-
Due beyond one year	6,528,008	-	6,528,008	-
Temporarily restricted:				
Cash and cash equivalents	6,055,110	-	6,055,110	6,604,236
Investments	387,525	-	387,525	-
Permanently restricted assets:				
Cash and cash equivalents	81,362	-	81,362	-
Investments	315,721	-	315,721	-
Capital Assets				
Land and construction in progress	5,757,944	-	5,757,944	7,224,110
Capital assets, net of accumulated depreciation	<u>20,098,959</u>	<u>3,332,760</u>	<u>23,431,719</u>	<u>105,149,125</u>
Total capital assets	<u>25,856,903</u>	<u>3,332,760</u>	<u>29,189,663</u>	<u>112,373,235</u>
Total assets	<u>\$ 54,338,735</u>	<u>\$ 3,431,440</u>	<u>\$ 57,770,175</u>	<u>\$ 129,540,455</u>
LIABILITIES				
Accrued salaries	\$ 652,791	\$ -	\$ 652,791	\$ 98,523
Accounts payable	595,682	6,721	602,403	838,820
Accounts payable - restricted	-	-	-	55,450
Claims payable	40,935	-	40,935	-
Accrued interest	82,708	-	82,708	270,254
Transient bond deposits	3,500	-	3,500	-
Construction retainage payable	-	-	-	114,523
Construction contracts payable	-	-	-	738,908
Customer deposits	-	-	-	66,432
Deferred grant revenue	-	-	-	160,667
Due to primary government	-	-	-	109,293
Noncurrent liabilities:				
Due within one year	1,081,804	-	1,081,804	3,997,044
Due beyond one year	22,750,505	-	22,750,505	72,403,041
Compensated absences:				
Due within one year	215,897	-	215,897	275,337
Due beyond one year	<u>1,016,364</u>	<u>-</u>	<u>1,016,364</u>	<u>225,646</u>
Total liabilities	<u>26,440,186</u>	<u>6,721</u>	<u>26,446,907</u>	<u>79,353,938</u>
NET POSITION				
Net investment in capital assets	17,171,414	3,332,760	20,504,174	41,293,514
Restricted for:				
Capital projects	5,924,629	-	5,924,629	-
Perpetual care:				
Expendable	518,522	-	518,522	-
Nonexpendable	397,650	-	397,650	-
Unrestricted	<u>3,886,334</u>	<u>91,959</u>	<u>3,978,293</u>	<u>8,893,003</u>
Total net position	<u>27,898,549</u>	<u>3,424,719</u>	<u>31,323,268</u>	<u>50,186,517</u>
Total liabilities and net position	<u>\$ 54,338,735</u>	<u>\$ 3,431,440</u>	<u>\$ 57,770,175</u>	<u>\$ 129,540,455</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, 2013

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services and Sales	Operating Grants,		Primary Government			
			Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
PRIMARY GOVERNMENT								
Governmental activities:								
General government	\$ (3,344,160)	\$ 1,792,491	\$ 1,482,123	\$ -	\$ (69,546)	\$ -	\$ (69,546)	\$ -
Public safety	(16,265,313)	63,797	2,957,170	334,265	(12,910,081)	-	(12,910,081)	-
Public works	(3,212,172)	-	799,538	448,796	(1,963,838)	-	(1,963,838)	-
Community development	(4,923,968)	-	187,667	434,620	(4,301,681)	-	(4,301,681)	-
Parks and recreation	(537,067)	195,602	176,807	103,775	(60,883)	-	(60,883)	-
Interest on long-term debt	(130,026)	-	-	-	(130,026)	-	(130,026)	-
Total governmental activities	<u>(28,412,706)</u>	<u>2,051,890</u>	<u>5,603,305</u>	<u>1,321,456</u>	<u>(19,436,055)</u>	<u>-</u>	<u>(19,436,055)</u>	<u>-</u>
Business-type activities:								
Tie Breaker Family Aquatic	(516,688)	252,615	-	-	-	(264,073)	(264,073)	-
Grounds Maintenance	-	-	-	-	-	-	-	-
Total business-type activities	<u>(516,688)</u>	<u>252,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(264,073)</u>	<u>(264,073)</u>	<u>-</u>
Total - primary government	<u>\$ (28,929,394)</u>	<u>\$ 2,304,505</u>	<u>\$ 5,603,305</u>	<u>\$ 1,321,456</u>	<u>(19,436,055)</u>	<u>(264,073)</u>	<u>(19,700,128)</u>	<u>-</u>
COMPONENT UNITS								
Hopkinsville Water Environment Authority	(12,364,171)	12,908,937	-	83,196	-	-	-	627,962
Hopkinsville Solid Waste Enterprise	(5,753,760)	6,159,490	-	-	-	-	-	405,730
Hopkinsville Surface and Stormwater	<u>(3,735,153)</u>	<u>1,137,817</u>	<u>2,157,934</u>	<u>284,867</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(154,535)</u>
Total - component units	<u>(21,853,084)</u>	<u>20,206,244</u>	<u>2,157,934</u>	<u>368,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>879,157</u>
GENERAL REVENUES								
Property taxes					5,039,471	-	5,039,471	-
Occupational taxes					13,337,584	-	13,337,584	-
Insurance premium tax					3,789,988	-	3,789,988	-
Franchise tax					293,561	-	293,561	-
Transient room tax					326,374	-	326,374	-
Investment income					6,016	486	6,502	52,385
Gain (loss) on sale of capital assets					-	-	-	22,402
Other					18,037	-	18,037	308,474
Total general revenues					<u>22,811,031</u>	<u>486</u>	<u>22,811,517</u>	<u>383,261</u>
Transfers					192,153	(192,153)	-	-
Special items					-	-	-	3,736,391
Total general revenues, transfers, & special items					<u>23,003,184</u>	<u>(191,667)</u>	<u>22,811,517</u>	<u>4,119,652</u>
Change in net position					3,567,129	(455,740)	3,111,389	4,998,809
Net position, beginning of year					<u>24,331,420</u>	<u>3,880,459</u>	<u>28,211,879</u>	<u>45,187,708</u>
Net position, end of year					<u>\$ 27,898,549</u>	<u>\$ 3,424,719</u>	<u>\$ 31,323,268</u>	<u>\$ 50,186,517</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, 2013

	Major Fund		Other Governmental Funds	Total Governmental Funds
	General	City Hall/PD Construction		
ASSETS				
Pooled cash and cash equivalents	\$ 8,243,590	\$ 4,547,205	\$ 3,060,193	\$ 15,850,988
Non-pooled cash and cash equivalents	42,078	-	1,589,267	1,631,345
Investments	-	-	703,245	703,245
Taxes receivable	1,632,903	-	-	1,632,903
Interest receivable	-	-	-	-
Interfund receivable	-	-	-	-
Intergovernmental receivables	116,711	-	-	116,711
Loans receivable	-	-	190,279	190,279
Due from component unit	-	-	109,293	109,293
Other receivables	-	-	177,029	177,029
Total assets	<u>\$ 10,035,282</u>	<u>\$ 4,547,205</u>	<u>\$ 5,829,306</u>	<u>\$ 20,411,793</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 174,106	\$ 343,232	\$ 78,345	\$ 595,683
Accrued salaries	652,791	-	-	652,791
Interfund payables	-	-	-	-
Bond issue cost payable	-	-	-	-
Transient bond deposits	3,500	-	-	3,500
Total liabilities	<u>830,397</u>	<u>343,232</u>	<u>78,345</u>	<u>1,251,974</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	4,203,973	5,107,302	9,311,275
Committed	1,048,660	-	73,152	1,121,812
Assigned	312,383	-	570,507	882,890
Unassigned	7,843,842	-	-	7,843,842
Total fund balances	<u>9,204,885</u>	<u>4,203,973</u>	<u>5,750,961</u>	<u>19,159,819</u>
Total liabilities and fund balances	<u>\$ 10,035,282</u>	<u>\$ 4,547,205</u>	<u>\$ 5,829,306</u>	<u>\$ 20,411,793</u>

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

City of Hopkinsville, Kentucky
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
For the Fiscal Year Ended June 30, 2013

Total fund balance - total governmental funds	\$ 19,159,819
Amounts reported for governmental activities in the statement of net position are different because:	
Taxes receivable based on availability criteria; \$33,574 property taxes, \$426,921 insurance premium taxes, and \$53,654 franchise taxes.	514,149
Deferred charges - bond refinancing charges, amortizable over life of debt	226,077
Capital assets of \$49,888,807, net of accumulated depreciation of (\$24,031,904), are not financial resources and, therefore, are not reported in the funds. See note 4 for additional detail.	25,856,903
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 \$454,449 are included in governmental activities in the statement of net position	454,449
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.	(24,953,892)
Receivables from component units for long-term debt where the City is contingently liable and are not reported in the funds.	6,805,510
Premium on bond issuance is amortized over life of debt	(81,758)
Accrued interest	<u>(82,708)</u>
Net position of governmental activities	<u>\$ 27,898,549</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, 2013

	Major Fund		Other Governmental Funds	Total Governmental Funds
	General	City Hall/PD Construction		
REVENUES				
Taxes	\$ 5,036,197	\$ -	\$ -	\$ 5,036,197
Licenses and permits	19,218,475	-	-	19,218,475
Fines and forfeits	63,797	-	-	63,797
Intergovernmental	1,664,470	-	3,125,799	4,790,269
Investment income	22,579	5,378	3,557	31,514
Donations	-	-	104,866	104,866
Charges for services	-	-	-	-
Other	<u>2,084,077</u>	<u>1,500</u>	<u>142,393</u>	<u>2,227,970</u>
Total revenues	<u>28,089,595</u>	<u>6,878</u>	<u>3,376,615</u>	<u>31,473,088</u>
EXPENDITURES				
Current:				
General government	2,989,052	79,895	64,056	3,133,003
Public safety	15,185,701	-	1,652,877	16,838,578
Public works	2,681,028	-	194,443	2,875,471
Community development	3,947,592	-	1,026,680	4,974,272
Parks and recreation	429,545	-	-	429,545
Debt service:				
Principal	727,087	-	255,196	982,283
Interest	430,463	-	67,516	497,979
Expenditures	-	-	-	-
Capital outlays	<u>195,070</u>	<u>3,104,423</u>	<u>771,338</u>	<u>4,070,831</u>
Total expenditures	<u>26,585,538</u>	<u>3,184,318</u>	<u>4,032,106</u>	<u>33,801,962</u>
Excess of revenues over (under) expenditures	<u>1,504,057</u>	<u>(3,177,440)</u>	<u>(655,491)</u>	<u>(2,328,874)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	511,442	-	2,242,322	2,753,764
Transfers to other funds	(2,329,381)	-	(349,838)	(2,679,219)
Proceeds of refunding debt	-	-	-	-
Premium on bond issue	-	-	-	-
Refunding debt redeemed	-	-	-	-
Issuance of debt	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources (uses)	<u>(1,817,939)</u>	<u>-</u>	<u>1,892,484</u>	<u>74,545</u>
Net change in fund balances	(313,882)	(3,177,440)	1,236,993	(2,254,329)
Fund balances, beginning of year	<u>9,518,767</u>	<u>7,381,413</u>	<u>4,513,968</u>	<u>21,414,148</u>
Fund balances, end of year	<u>\$ 9,204,885</u>	<u>\$ 4,203,973</u>	<u>\$ 5,750,961</u>	<u>\$ 19,159,819</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, 2013

Net change in fund balances - total governmental funds	\$ (2,254,329)
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 outlay of \$2,385,216 exceeded depreciation of (\$2,094,086) in the current period.	
	291,130
Governmental funds report construction in progress as expenditures. However, in the statement of activities, the cost of those assets is allocated to capital assets.	
	3,650,682
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 position.	
	(5,378)
Grounds Maintenance Fund, a business-type activity, is now considered a part of the General Fund. The net capital assets of \$424,944 and accrued liabilities of (\$29,741) were considered nonoperating expenses in the fund financial statements, but are considered transfers on the government-wide financial statements.	
	395,203
The cumulative adjustment for the Internal Service Fund allocated to Grounds Maintenance Fund is included with accrued liabilities on the government-wide financial statements.	
	(277,595)
Certain imposed nonexchange revenues were not recognized in the governmental funds because they were not available at June 30, 2013. The change in this account balance is a reconciling item for this statement.	
	317,889
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 \$146,901 is reported with governmental activities.	
	146,901
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
	982,283
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The total proceeds were \$10,124 with an overall gain of \$9,001 less \$704 for commission expense for 2013.	
	(419)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. These include the decrease in compensated absences of \$327,971, decrease in accrued interest of \$31,945, increase in pension obligation (\$38,820), amortization of deferred charges of (\$14,949), and amortization of debt premium of \$14,615.	
	<u>320,762</u>
Change in net position of governmental activities	<u>\$ 3,567,129</u>

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

City of Hopkinsville, Kentucky
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Major Fund			
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
ASSETS				
Current assets:				
Pooled cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Non-pooled cash and cash equivalents	98,680	-	98,680	495,384
Accounts receivable	-	-	-	-
Total current assets	98,680	-	98,680	495,384
Noncurrent assets:				
Capital assets:				
Land and construction in progress	-	-	-	-
Capital assets, net of accumulated depreciation	3,332,760	-	3,332,760	-
Total noncurrent assets	3,332,760	-	3,332,760	-
Total assets	\$ 3,431,440	\$ -	\$ 3,431,440	\$ 495,384
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 6,721	\$ -	\$ 6,721	\$ -
Accrued salaries	-	-	-	-
Incurred, not yet reported	-	-	-	40,935
Accrued landfill closing costs	-	-	-	-
Compensated absences	-	-	-	-
Total current liabilities	6,721	-	6,721	40,935
Noncurrent liabilities:				
Accrued landfill closing costs	-	-	-	-
Compensated absences	-	-	-	-
Total noncurrent liabilities	-	-	-	-
Total liabilities	6,721	-	6,721	40,935
NET POSITION				
Net investment in capital assets	3,332,760	-	3,332,760	-
Unrestricted	91,959	-	91,959	454,449
Total net position	\$ 3,424,719	\$ -	\$ 3,424,719	\$ 454,449

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 Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type Activities			Governmental Activities- Internal Service Funds
	Enterprise Funds			
	Major Fund			
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
OPERATING REVENUES				
Charges for services	\$ 252,615	\$ -	\$ 252,615	\$ -
Employee contributions	-	-	-	395,696
Employer contributions	-	-	-	1,607,930
Insurance reimbursement	-	-	-	-
Other income	-	-	-	8
Total operating revenues	<u>252,615</u>	<u>-</u>	<u>252,615</u>	<u>2,003,634</u>
OPERATING EXPENSES				
Salaries, wages and benefits	-	-	-	-
Lease expense	-	-	-	-
Management contract	218,477	-	218,477	-
Maintenance	40,200	-	40,200	-
Marketing	44,057	-	44,057	-
Operations	20,114	-	20,114	-
Utilities	59,329	-	59,329	-
Administrative	-	-	-	427,445
Supplies	7,744	-	7,744	-
Depreciation	126,767	-	126,767	-
Claims expense	-	-	-	1,429,437
Total operating expenses	<u>516,688</u>	<u>-</u>	<u>516,688</u>	<u>1,856,882</u>
Operating income (loss)	<u>(264,073)</u>	<u>-</u>	<u>(264,073)</u>	<u>146,752</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	486	-	486	149
Transfer of net assets to general fund	-	(395,203)	(395,203)	-
Gain on sale of equipment	-	-	-	-
Total nonoperating revenues (expenses)	486	(395,203)	(394,717)	149
Income (loss) before transfers	<u>(263,587)</u>	<u>(395,203)</u>	<u>(658,790)</u>	<u>146,901</u>
Transfers in	125,000	-	125,000	-
Transfers out	-	(199,545)	(199,545)	-
Capital contributions	-	-	-	-
Transfer of net liabilities to component unit	-	-	-	-
Total transfers and capital contributions	<u>125,000</u>	<u>(199,545)</u>	<u>(74,545)</u>	<u>-</u>
Change in net position	(138,587)	(594,748)	(733,335)	146,901
Net position, beginning of year	<u>3,563,306</u>	<u>594,748</u>	<u>4,158,054</u>	<u>307,548</u>
Net position, end of year	<u>\$ 3,424,719</u>	<u>\$ -</u>	<u>\$ 3,424,719</u>	<u>\$ 454,449</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, 2013

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Tie Breaker Family Aquatic	Grounds Maintenance	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 252,615	\$ -	\$ 252,615	\$ 2,003,634
Other cash receipts	-	-	-	-
Cash payments to employees for services	-	-	-	-
Cash payments to suppliers	(410,037)	-	(410,037)	(442,751)
Cash payments for claims	-	-	-	(1,430,438)
Net cash provided by (used in) operating activities	<u>(157,422)</u>	<u>-</u>	<u>(157,422)</u>	<u>130,445</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	125,000	-	125,000	-
Transfers out	-	(199,545)	(199,545)	-
Net cash provided by (used in) noncapital financing activities	<u>125,000</u>	<u>(199,545)</u>	<u>(74,545)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	-	-	-	-
Payments for capital acquisitions	-	-	-	-
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Interest on investments	486	-	486	149
Net cash provided by (used in) investment activities	<u>486</u>	<u>-</u>	<u>486</u>	<u>149</u>
Net increase (decrease) in cash and cash equivalents	(31,936)	(199,545)	(231,481)	130,594
Cash and cash equivalents, beginning of year	<u>130,616</u>	<u>199,545</u>	<u>330,161</u>	<u>364,790</u>
Cash and cash equivalents, end of year	<u>\$ 98,680</u>	<u>\$ -</u>	<u>\$ 98,680</u>	<u>\$ 495,384</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (264,073)	\$ -	\$ (264,073)	\$ 146,752
Adjustments:				
Depreciation	126,767	-	126,767	-
(Increase) decrease in assets:				
Accounts receivable	-	-	-	-
Increase (decrease) in liabilities:				
Accounts payable	(20,116)	-	(20,116)	-
Accrued liabilities	-	-	-	(16,307)
Net cash provided by (used in) operating activities	<u>\$ (157,422)</u>	<u>\$ -</u>	<u>\$ (157,422)</u>	<u>\$ 130,445</u>
NONCASH CAPITAL ACTIVITIES				
Transfer asset and liabilities to general fund	<u>\$ -</u>	<u>\$ 395,203</u>	<u>\$ 395,203</u>	<u>\$ -</u>

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

City of Hopkinsville, Kentucky
Statement of Net Position
Fiduciary Funds
June 30, 2013

	<u>Pension Trust Funds</u>
ASSETS	
Cash	\$ 21
Accrued interest receivable	-
Money market	58,657
Corporate bond funds	<u>747,129</u>
 Total assets	 <u>\$ 805,807</u>
LIABILITIES	
Administration fees payable	<u>\$ -</u>
 Total liabilities	 <u>-</u>
NET POSITION	
Held in trust for pension benefits	<u>805,807</u>
 Total liabilities and net position	 <u>\$ 805,807</u>

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

City of Hopkinsville, Kentucky
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended June 30, 2013

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 400,000
Plan members	<u>-</u>
Total contributions	400,000
Investment earnings:	
Net appreciation (depreciation) in fair value of investments	(37,867)
Interest	13,343
Miscellaneous receipts	<u>5,965</u>
Total investment earnings	(18,559)
Less investment expense	<u>11,139</u>
Net investment earnings	<u>(29,698)</u>
Total additions	<u>370,302</u>
DEDUCTIONS	
Benefits	<u>401,385</u>
Change in net position	(31,083)
Net position, beginning of year	<u>836,890</u>
Net position, end of year	<u>\$ 805,807</u>

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

City of Hopkinsville, Kentucky
Statement of Net Position
Component Units
June 30, 2013

	Major			Total
	Hopkinsville Water Environment Authority	Hopkinsville Solid Waste Enterprise	Hopkinsville Surface and Storm Water Utility	
ASSETS				
Cash and cash equivalents	\$ 5,314,306	\$ 200,557	\$ 1,661,507	\$ 7,176,370
Receivables	994,366	565,717	598,464	2,158,547
Inventory	255,595	-	-	255,595
Prepaid insurance	118,008	-	-	118,008
Restricted assets:				
Cash and cash equivalents	1,429,127	4,263,080	912,029	6,604,236
Deferred charges, net	285,831	49,627	80,926	416,384
Notes receivable	423,025	-	-	423,025
Other receivables	15,055	-	-	15,055
Capital assets, net of depreciation:				
Land and construction in progress	5,912,400	677,102	634,608	7,224,110
Depreciable capital assets	<u>97,483,626</u>	<u>3,584,029</u>	<u>4,081,470</u>	<u>105,149,125</u>
Total assets	<u>\$ 112,231,339</u>	<u>\$ 9,340,112</u>	<u>\$ 7,969,004</u>	<u>\$ 129,540,455</u>
LIABILITIES				
Current portion of long-term debt	\$ 3,625,167	\$ 177,083	\$ 129,339	\$ 3,931,589
Current portion of capital lease obligation	-	65,455	-	65,455
City of Hopkinsville - loan payable	109,293	-	-	109,293
Customer deposits	66,432	-	-	66,432
Accrued interest	263,637	-	6,617	270,254
Accounts payable	476,860	312,596	49,364	838,820
Accounts payable - restricted	-	55,450	-	55,450
Accrued salaries and compensated absences	246,643	127,217	-	373,860
Deferred grant revenue	-	-	160,667	160,667
Construction retainage payable	114,523	-	-	114,523
Construction contracts payable	738,908	-	-	738,908
Long-term liabilities:				
Compensated absences	63,048	162,598	-	225,646
Revenue bonds payable (net of current portion)	21,816,228	-	-	21,816,228
KIA - loans payable (net of current portion)	36,292,911	-	-	36,292,911
KLC - loans payable (net of current portion)	-	1,338,920	4,457,339	5,796,259
Capital leases (net of current portion)	-	1,093,428	-	1,093,428
Accrued landfill closure costs	-	5,767,215	-	5,767,215
KY Rural Finance loans payable (net of current portion)	<u>1,637,000</u>	<u>-</u>	<u>-</u>	<u>1,637,000</u>
Total liabilities	<u>65,450,650</u>	<u>9,099,962</u>	<u>4,803,326</u>	<u>79,353,938</u>
NET POSITION				
Net investment in capital assets	39,084,190	1,586,245	623,079	41,293,514
Unrestricted	<u>7,696,499</u>	<u>(1,346,095)</u>	<u>2,542,599</u>	<u>8,893,003</u>
Total net position	<u>46,780,689</u>	<u>240,150</u>	<u>3,165,678</u>	<u>50,186,517</u>
Total liabilities and net position	<u>\$ 112,231,339</u>	<u>\$ 9,340,112</u>	<u>\$ 7,969,004</u>	<u>\$ 129,540,455</u>

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, 2013

	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 Enterprise	Hopkinsville Surface and Stormwater Utility	Totals
EXPENSES								
Hopkinsville Water Environment Authority	\$ (12,364,171)	\$ 12,908,937	\$ -	\$ 83,196	\$ 627,962	\$ -	\$ -	\$ 627,962
Hopkinsville Solid Waste Enterprise	(5,753,760)	6,159,490	-	-	-	405,730	-	405,730
Hopkinsville Surface and Stormwater Utility	(3,735,153)	1,137,817	2,157,934	284,867	-	-	(154,535)	(154,535)
Total expenses	<u>\$ (21,853,084)</u>	<u>20,206,244</u>	<u>2,157,934</u>	<u>368,063</u>	<u>627,962</u>	<u>405,730</u>	<u>(154,535)</u>	<u>879,157</u>
GENERAL REVENUES:								
					38,660	1,259	12,466	52,385
					20,402	2,000	-	22,402
					247,290	61,184	-	308,474
Total general revenues					<u>306,352</u>	<u>64,443</u>	<u>12,466</u>	<u>383,261</u>
SPECIAL ITEMS:								
					-	4,577,045	-	4,577,045
					-	-	(331,960)	(331,960)
					(475,190)	-	-	(475,190)
					(33,504)	-	-	(33,504)
Total special items					<u>(508,694)</u>	<u>4,577,045</u>	<u>(331,960)</u>	<u>3,736,391</u>
Change in net position					425,620	5,047,218	(474,029)	4,998,809
Net position, beginning of year					<u>46,355,069</u>	<u>(4,807,068)</u>	<u>3,639,707</u>	<u>45,187,708</u>
Net position, end of year					<u>\$ 46,780,689</u>	<u>\$ 240,150</u>	<u>\$ 3,165,678</u>	<u>\$ 50,186,517</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 residents of the City of Hopkinsville, KY, the City of Pembroke, KY, and the City of Crofton, KY. 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 9th Street
Hopkinsville, Kentucky 42240

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

1. Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

Discretely Presented Component Units, continued

The Solid Waste Enterprise (Solid Waste), doing business as Hopkinsville Solid Waste Enterprise, 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 Enterprise
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	442,732
Library Board	225,000
Emergency Communications Center	664,000

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

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position 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 position 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 position 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.

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.

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.

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

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.

Grants Fund – established to account for various local, state, or federal grants unrelated to general fund operations or other specifically designated funds.

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.

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:

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

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 position, 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. The Grounds Maintenance Fund was transferred into the General Fund during the current fiscal year.

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 position and changes in net position. 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 98.885. 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 Position.

Fund Financial Statements

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

Continued

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

1. Summary of Significant Accounting Policies, continued

D. Measurement Focus, continued

Fund Financial Statements, continued

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

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

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

E. Basis of Accounting

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

For all proprietary fund types, it is required that the statement of revenues, expenses, and changes in net position 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.

Continued

**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.

Continued

**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.

J. Restricted Assets

Restricted assets for the City consist of the outstanding balance of revenue bonds of the City which were loaned to Hopkinsville Solid Waste Enterprise for the construction of a vertical expansion of the landfill and leachate treatment station located at the landfill.

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

1. Summary of Significant Accounting Policies, continued

J. Restricted Assets, continued

Restricted assets for the City consist of the outstanding balance of general obligation bonds of the City which were loaned to Hopkinsville Storm Water Utility for use in the acquisition, construction, and installation of surface and storm water projects within the jurisdiction of the City.

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 Position 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 position 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 cash and investments placed in accounts in order to comply with state laws for funding landfill closure and postclosure costs and other projects.

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 position 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

Continued

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

1. Summary of Significant Accounting Policies, continued

K. Capital Assets, continued

sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is capitalized for business-type activities; however, interest is not capitalized in connection with the construction of capital assets used in governmental activities. Upon implementation of GASB 34, the infrastructure previously acquired was included in the cost and accumulated depreciation was calculated based on useful lives remaining.

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

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

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

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, 2013.

Continued

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

1. Summary of Significant Accounting Policies, continued

N. Compensated Absences, continued

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

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

Continued

**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, by ordinance approved by City Council. To be reported as committed, amounts cannot be used for any other purpose unless the City takes action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose (such as encumbrances). 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 capital 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 Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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.

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

1. Summary of Significant Accounting Policies, continued

V. Budgetary Information, continued

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

2. Deposits and Investments

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

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 \$17,369,170 and the bank balance was \$18,733,206. 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, 2013, 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 \$6,741,527 and the bank balance was \$6,677,785. Of this bank balance, Federal Depository Insurance covered \$623,362, with the balance covered by collateral held by the pledging bank. Therefore, as of June 30, 2013, 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 \$4,463,637 and the bank balance was \$4,534,015. 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, 2013, 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 \$1,661,507 and the bank balance was \$1,821,985. Of this bank balance, Federal Depository Insurance covered \$250,000, with the balance of \$1,571,985 covered by collateral held by financial institutions' agents in the Storm Water's name. Therefore, as of June 30, 2013, the Storm Water did not have any deposited funds exposed to custodial credit risk.

Continued

**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, 2013</u>	<u>Average Credit Quality/Rating</u>	<u>Fair Value (Primary Gov't)</u>	<u>Fair Value (Pension Trust Fund)</u>	<u>Average Maturity</u>
Insured Deposit Program MGD1	N/A	\$ 196,286	\$ -	N/A
Insured Deposit Program MGDW	N/A	174,092	-	N/A
Planters Bank Trust Money Market	N/A	-	58,678	N/A
American Century GNMA	N/A	-	134,639	N/A
Fidelity GNMA	N/A	-	149,748	N/A
SIT US Government Securities	AAA	-	152,016	3.30 Years
T Rowe Price Inflated Protected Securities	N/A	-	43,199	N/A
Vanguard Inflation Protected Securities	AAA	-	42,955	8.40 Years
Vanguard Long Term Treasury	AAA	-	43,265	24.50 Years
Vanguard Long Term Treasury Admiral	AAA	-	43,263	N/A
Vanguard Short Term Federal Invest	AAA	-	138,044	2.60 Years
Federated Prime Cash Obligation	N/A	16,764	-	44 Days
Sterling Capital Intermediate US Gov't Fund	AAA	122,626	-	4.46 Years
Sterling Capital Short Term Bond Instl Fund	BBB	4,817	-	2.29 Years
Sterling Capital Total Return Bond Instl Fund	AAA	113,856	-	7.95 Years
American Century Diversified Bond Fund	AAA	70,102	-	6.95 Years
Sterling Capital Corporate Fund	BB	61,530	-	10.83 Years
Sterling Capital Securitized Opportunities Fund	AAA	5,000	-	5.47 Years
Neuberger Berman Strategic Income Fund	AAA	7,392	-	7.80 Years
Doubleline Total Return Bond Fund	AAA	123,329	-	5.39 Years
Metropolitan West Total Return Bond	AA	65,408	-	7.48 Years
Prudential Short Term Corporate Bond Fund	BBB	10,521	-	N/A
Pimco Foreign Bond Fund	AAA	<u>10,018</u>	<u>-</u>	8.33 Years
Total Credit Risk Debt Securities		<u>981,741</u>	<u>805,807</u>	
US Government Agencies (FNMA)		<u>108,647</u>	<u>-</u>	
Total Debt Securities		<u>\$ 1,090,388</u>	<u>\$ 805,807</u>	

The investments for Storm Water consisted of the following:

<u>Investments as of June 30, 2013</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	\$ 912,029	\$ 912,029	N/A

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

2. Deposits and Investments, continued

B. Investments, continued

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, 2013, 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.

Foreign Currency Risk

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

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

2. Deposits and Investments, continued

C. Restricted Assets

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

Bond and interest redemption	\$ 37,082
Construction	1,366,525
Unemployment	<u>25,520</u>
Total restricted assets	<u>\$ 1,429,127</u>

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

Landfill closure costs	\$ 2,500,000
Projects and expansion costs	1,063,080
Capital reserve	<u>700,000</u>
Total restricted assets	<u>\$ 4,263,080</u>

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

General obligation bond proceeds	<u>\$ 912,029</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, 2013, 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.