

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

4. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2013</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,615,621	\$ 260,159	\$ -	\$ 1,875,780
Construction in Progress	<u>233,957</u>	<u>3,651,012</u>	<u>2,805</u>	<u>3,882,164</u>
Total Capital Asset Not Being Depreciated	<u>1,849,578</u>	<u>3,911,171</u>	<u>2,805</u>	<u>5,757,944</u>
Capital Assets Being Depreciated:				
Buildings & Improvements	7,978,982	234,191	-	8,213,173
Equipment	8,254,802	974,294	-	9,229,096
Infrastructure	17,451,665	1,008,960	-	18,460,625
Land Improvements	5,253,056	242,847	-	5,495,903
Vehicles	<u>2,354,782</u>	<u>505,870</u>	<u>128,586</u>	<u>2,732,066</u>
Total Capital Assets Being Depreciated	<u>41,293,287</u>	<u>2,966,162</u>	<u>128,586</u>	<u>44,130,863</u>
Less Accumulated Depreciation:				
Buildings & Improvements	3,277,770	429,173	-	3,706,943
Equipment	4,678,562	837,134	128,167	5,387,529
Infrastructure	9,987,222	676,116	-	10,663,338
Land Improvements	1,704,479	223,660	-	1,928,139
Vehicles	<u>2,004,596</u>	<u>341,359</u>	<u>-</u>	<u>2,345,955</u>
Total Accumulated Depreciation	<u>21,652,629</u>	<u>2,507,442</u>	<u>128,167</u>	<u>24,031,904</u>
Total	<u>\$ 21,490,236</u>	<u>\$ 4,369,891</u>	<u>\$ 3,224</u>	<u>\$ 25,856,903</u>

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

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 294,849
Public Safety	630,798
Public Works	676,116
Community Development	223,660
Parks and Recreation	<u>268,663</u>
Total Depreciation Expense	<u>\$2,094,086</u>

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

4. Capital Assets, continued

A summary of City enterprise funds property, plant and equipment at June 30, 2013, is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Enterprise Fund Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 260,159	\$ -	\$ 260,159	\$ -
Capital Assets Being Depreciated:				
Buildings and improvements	3,957,937	-	165,307	3,792,630
Equipment	622,410	-	287,659	334,751
Vehicles	125,173	-	125,173	-
Total Capital Assets Being Depreciated	<u>4,705,520</u>	<u>-</u>	<u>578,139</u>	<u>4,127,381</u>
Less Accumulated Depreciation:				
Buildings and improvements	630,896	96,177	134,324	592,749
Equipment	377,618	30,590	206,336	201,872
Vehicles	72,696	-	72,696	-
Total Accumulated Depreciated	<u>1,081,210</u>	<u>126,767</u>	<u>413,356</u>	<u>794,621</u>
Total	<u>\$ 3,884,469</u>	<u>\$ (126,767)</u>	<u>\$ 424,942</u>	<u>\$ 3,332,760</u>

Depreciation expense (including amortization of capitalized assets) of the enterprise funds for the year ended June 30, 2013, was \$126,767.

A summary of HWEA's enterprise fund property, plant and equipment at June 30, 2013, is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Enterprise Fund Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 1,605,344	\$ -	\$ 33,504	\$ 1,571,840
Construction in progress	5,630,120	5,293,214	6,582,774	4,340,560
Total Capital Assets Not Being Depreciated	<u>7,235,464</u>	<u>5,293,214</u>	<u>6,616,278</u>	<u>5,912,400</u>
Capital Assets Being Depreciated:				
Structures and Improvements	142,244,182	7,415,180	554,470	149,104,892
Equipment	9,883,499	371,435	96,628	10,158,306
Vehicles	788,846	118,250	35,658	871,438
Total Capital Assets Being Depreciated	<u>152,916,527</u>	<u>7,904,865</u>	<u>686,756</u>	<u>160,134,636</u>
Less Accumulated Depreciation:				
Structures and Improvements	50,745,165	3,295,157	197,840	53,842,482
Equipment	7,931,346	407,372	88,068	8,250,650
Vehicles	549,718	43,818	35,658	557,878
Total Accumulated Depreciation	<u>59,226,229</u>	<u>3,746,347</u>	<u>321,566</u>	<u>62,651,010</u>
Total	<u>\$ 100,925,762</u>	<u>\$ 9,451,732</u>	<u>\$ 6,981,468</u>	<u>\$ 103,396,026</u>

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

4. Capital Assets, continued

Depreciation expense (including amortization of capitalized assets) for HWEA for the year ended June 30, 2013, was \$3,746,347.

A summary of Solid Waste enterprise fund property, plant and equipment at June 30, 2013, is as follows:

Enterprise Fund Activities	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital Assets Not Being Depreciated:				
Land	\$ 615,582	\$ -	\$ -	\$ 615,582
Construction in Progress	51,520	10,000	-	61,520
Total Capital Assets Not Being Depreciated	<u>667,102</u>	<u>10,000</u>	<u>-</u>	<u>677,102</u>
Capital Assets Being Depreciated:				
Buildings	184,605	-	-	184,605
Equipment	4,568,644	1,857,435	91,724	6,334,355
Land Improvements	1,947,530	-	-	1,947,530
Total Capital Assets Being Depreciated	<u>6,700,779</u>	<u>1,857,435</u>	<u>91,724</u>	<u>8,466,490</u>
Less Accumulated Depreciation:				
Buildings and Improvements	46,701	5,341	-	52,042
Equipment	4,004,660	358,459	91,724	4,271,395
Land Improvements	552,630	6,394	-	559,024
Total Accumulated Depreciation	<u>4,603,991</u>	<u>370,194</u>	<u>91,724</u>	<u>4,882,461</u>
Total	<u>\$ 2,763,890</u>	<u>\$ 1,497,241</u>	<u>\$ -</u>	<u>\$ 4,261,131</u>

Depreciation expense (including amortization of capitalized assets) for Solid Waste for the year ended June 30, 2013, was \$370,194.

A summary of Storm Water enterprise fund property, plant and equipment at June 30, 2013, is as follows:

Enterprise Fund Activities	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital Assets Not Being Depreciated:				
Land	\$ 493,879	\$ 24	\$ -	\$ 493,903
Construction in Progress	566,866	99,915	526,076	140,705
Total Capital Assets Not Being Depreciated	<u>1,060,745</u>	<u>99,939</u>	<u>526,076</u>	<u>634,608</u>
Capital Assets Being Depreciated:				
Infrastructure	3,335,822	1,032,672	-	4,368,494
Less Accumulated Depreciation:				
Infrastructure	146,543	140,481	-	287,024
Total	<u>\$ 4,250,024</u>	<u>\$ 992,130</u>	<u>\$ 526,076</u>	<u>\$ 4,716,078</u>

Depreciation expense (including amortization of capitalized assets) for Storm Water for the year ended June 30, 2013 was \$140,481.

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

5. Post-Retirement Benefits

Earned but unused vacation hours are converted to terminal pay at retirement. Prior to April 1, 2002, accumulated sick leave could be taken as terminal pay at the rate of four sick days per one day's wages. Effective April 1, 2002, the City Council authorized adoption of the Order of Participation with the Kentucky Retirement System, which established the Standard Unused Sick Leave Program. This Program provides for member with a participation date prior to September 1, 2008, receive service credit for all unused accumulated sick leave at the time of retirement. Members with a participation date on or after September 1, 2008 may receive a maximum of twelve months of service credit for unused sick time. The amount is based on a mathematical calculation with a factor that considers the retiree's wage, age, and years of service. As it is not practical to estimate the cost of converting sick hours to retirement credit, management chooses to report accumulated sick time as a liability based on converting four sick days to one day of terminal pay at retirement.

6. Employee Retirement Systems

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

(a) County Employees' Retirement System

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

Funding policy. Plan members participating in CERS on or before August 31, 2008, are required to contribute 5% or 8% of their annual creditable compensation for nonhazardous and hazardous position plan members, respectively. For plan members who began participating in CERS on or after September 1, 2008, the contribution rates are 6% and 9%, respectively. The City is required to contribute at an actuarially determined rate. The current rate is 19.55% of annual covered payroll for nonhazardous and 37.60% for hazardous position members. The contribution requirements of plan members and the City are established and may be amended by KRS Board of Trustees. The City's

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

6. Employee Retirement Systems, continued

contribution to CERS for the three years ended June 30, 2013, 2012, and 2011, was \$3,631,947, \$3,322,608, and \$2,918,628, respectively, equal to the required contribution for these years. HWEA's contribution to CERS for the three years ended June 30, 2013, 2012, and 2011, was \$513,732, \$508,581, and \$425,654, respectively, equal to the required contribution for these years. The Solid Waste's contributions to CERS for the three years ended June 30, 2013, 2012, and 2011, was \$299,387, \$272,609 and \$249,546, respectively, equal to the required contribution for these years.

(b) Police and Firemen Pension Fund

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

Plan Description. The City's Policemen's and Firefighter's Pension Fund is a single-employer, defined benefit pension plan administered by the Board of Trustees of the Pension Fund. The City's Policemen's and Firefighter's Pension Fund has no active participants and 28 inactive retirees and beneficiaries receiving benefits. No new participants can be enrolled. No terminated employees entitled to deferred benefits exist. The authority to establish and amend benefit provisions has been assigned to the Council of the City of Hopkinsville. All new policemen and firefighters eligible for retirement benefits are participants in the County Employees' Retirement System.

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

Due to the consistency of the fund's activity each year, an actuarial valuation is not performed biennially as required by GASB, but is prepared every three years per state law requirements. Accordingly, the most recent report is dated June 14, 2012. This report stipulates that the actuarial valuation summarized has been performed utilizing generally accepted accounting principles.

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

Description of Actuarial Funding Method. The employer contribution is determined under an aggregate variation of the Entry Age Normal Funding Method, with the contribution calculated in two pieces. The first piece is the "normal cost", and would usually be evaluated in terms of the normal cost accrual rate. This portion of the contribution is no longer applicable. The second piece of the total employer contribution is an amount that is intended to amortize the "unfunded supplemental liability". The unfunded supplemental liability is sometimes referred to as the "unfunded past service

Continued

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

6. Employee Retirement Systems, continued

liability". The amortization period is considered closed. Since only retirees and beneficiaries remain covered by the Fund, the supplemental liability is simply the present value of future expected benefit payments. The unfunded supplemental liability is the amount by which current assets fall short of this expected liability.

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

Based on the January 1, 2012, actuarial valuation of the Fund, a suggested employer contribution to be applied to the fiscal year beginning July 1, 2012, has been determined. The interest rate used to determine the present value of future benefit payments is currently 6%, selected to recognize current and expected market conditions. Assuming a 2.75% COLA, the amortization period selected by the actuary is 2017 (4 years from 2013), which is the remaining life expectancy of the current beneficiaries. The normal cost is \$0, as there are no actively employed participants in the Fund.

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

Annual required contribution	\$ 761,220
Interest on net pension obligation	113,336
Adjustment to annual required contribution	<u>(435,736)</u>
Annual pension cost	438,820
Contributions made	<u>(400,000)</u>
Increase in net pension obligation	38,820
Net pension obligation beginning of year	<u>1,888,941</u>
 Net pension obligation end of year	 <u>\$1,927,761</u>

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/11	456,443	88%	1,842,132
6/30/12	446,809	90%	1,888,941
6/30/13	438,820	91%	1,927,761

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

6. Employee Retirement Systems, continued

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

Schedule of Funding Progress

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

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

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

Valuation Date	01/01/12
Valuation Method	Entry age normal funding method (an aggregate variation)
Amortization method and period	Amortization period selected by actuary is five (5) years. Amortization is achieved using level dollar payments sufficient to pay interest on the unamortized amount each year.
Actuarial asset valuation method	Mean of book and market value
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increases	None
Post retirement benefit increases	None
Inflation	None

7. Interfund Receivables and Payables

There were no interfund receivables or payables between the governmental funds at June 30, 2013.

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

8. Construction Commitment

At June 30, 2013, the City had three material contracts pending. The first material contract pending was the construction of a city administration building and renovation of the current business administration building to become the police department. The second material contract pending was the renovation of the parks within the City. The third material contract pending was the rails to trails project. The total expenditures for the city administration building and renovation of the current administration building at the end of the year were \$3.27 million with approximately \$7.73 million remaining for the project. The total expenditures for the renovation of the parks within the City at the end of the year were \$126 thousand with approximately \$1.37 million remaining for the project. The total expenditures for the rails to trails project at the end of the year were approximately \$165 thousand with approximately \$1.5 million remaining for the project.

At June 30, 2013, HWEA had several material construction projects underway: Phase IV & VII sewer projects, sewage pump station upgrades, and sewer work on Millbrooke Drive and Roney Drive. The total expenditures for these projects at the end of the year were approximately \$3.80 million with approximately \$2.45 million remaining for the projects. These construction projects are being financed primarily with loan proceeds from the Kentucky Infrastructure Authority.

The Solid Waste is in the preconstruction planning stage of a Leachate Treatment Facility. The estimated cost of this project is \$950,000. However, no construction commitments existed at year end. For the Area 4 Regrade, total expenditures for the project at year end were approximately \$104 thousand with approximately \$268 thousand remaining for the project.

At June 30, 2013, the Storm Water had two material projects pending. For the Westwood/Boxwood construction project, total expenditures for the project were approximately \$56 thousand with approximately \$52 thousand remaining for the project. There are no current contract commitments. For the Little River U.S. Geological Survey Study, total expenditures for the study were approximately \$168 thousand with approximately \$267 thousand remaining for the study.

9. Short-Term Debt

The City of Hopkinsville issued no short-term debt during the year ended June 30, 2013.

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

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

9. Short-Term Debt, continued

Short-term debt activity for HWEA for the year-ended June 30, 2013, was as follows:

	Principal Outstanding July 1, 2012	Additions	Reductions	Principal Outstanding June 30, 2013
Christian Co Fiscal Court	\$ 199,083	\$ -	\$ 199,083	\$ -
Total	<u>\$ 199,083</u>	<u>\$ -</u>	<u>\$ 199,083</u>	<u>\$ -</u>

Solid Waste had general obligation notes of \$750,000 for a solid waste project. This liability was borrowed and paid off in the current year. The interest rate on this loan was 0.91%.

10. Long-Term Obligations

During the year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Principal Outstanding July 1, 2012	Additions	Reductions	Principal Outstanding June 30, 2013	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 1,530,492	\$ 29,739	\$ 327,970	\$ 1,232,261	\$ 215,897*
Net Pension Obligation	1,888,941	38,820	-	1,927,761	-
Due to KY Assoc of Co Leasing	-	731,749	-	731,749	-
Revenue Bond	1,659,167	-	172,084	1,487,083	177,083
General Obligation Bond	18,542,874	-	772,036	17,770,838	796,284
Notes Payable	2,140,448	-	336,248	1,804,200	108,436
Plus: Unamortized premium	163,444	-	18,427	145,017	-
Less: Unamortized discount	<u>(35,795)</u>	<u>-</u>	<u>(1,456)</u>	<u>(34,339)</u>	<u>-</u>
Total Governmental Activities	<u>\$ 25,889,571</u>	<u>\$ 800,308</u>	<u>\$ 1,625,309</u>	<u>\$ 25,064,570</u>	<u>\$ 1,297,700</u>
Business Type					
Activities-City:					
Compensated Absences	<u>\$ 29,739</u>	<u>\$ -</u>	<u>\$ 29,739</u>	<u>\$ -</u>	<u>\$ - *</u>
Business Type					
Activities-HWEA:					
Compensated Absences	\$ 296,191	\$ 234,593	\$ 221,093	\$ 309,691	\$ 246,643*
Revenue Bonds	25,048,567	-	1,455,000	23,593,567	1,507,500
Notes Payable	36,554,576	5,478,367	1,881,639	40,151,304	2,226,960
Capital Leases	1,843	-	1,843	-	-
Less: Unamortized discount	<u>(294,091)</u>	<u>-</u>	<u>(29,819)</u>	<u>(264,272)</u>	<u>-</u>
Total Business Type Activities- HWEA	<u>\$ 61,607,086</u>	<u>\$ 5,712,960</u>	<u>\$ 3,529,756</u>	<u>\$ 63,790,290</u>	<u>\$ 3,981,103</u>

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

10. Long-Term Obligations, continued

	Principal Outstanding July 1, 2012	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding June 30, 2013	Due Within One Year
Business Type					
Activities-Solid Waste:					
Compensated Absences	\$ 178,610	\$ 12,682	\$ -	\$ 191,292	\$ 28,694*
City of Hopkinsville-KACL	-	731,749	-	731,749	-
Capital lease-vehicles	-	506,900	79,766	427,134	65,455
Revenue bonds	1,659,167	-	172,084	1,487,083	177,083
Plus: Unamortized premium	32,733	-	3,813	28,920	-
Accrued Landfill Closing Costs	<u>10,502,641</u>	<u>-</u>	<u>4,735,426</u>	<u>5,767,215</u>	<u>-</u>
 Total Business Type Activities- Solid Waste	 <u>\$ 12,373,151</u>	 <u>\$ 1,251,331</u>	 <u>\$ 4,991,089</u>	 <u>\$ 8,633,393</u>	 <u>\$ 271,232</u>
 Business Type					
Activities-Storm Water:					
General Obligation Bond	<u>\$ 4,712,678</u>	<u>\$ -</u>	<u>\$ 126,000</u>	<u>\$ 4,586,678</u>	<u>\$ 129,339</u>
 Total Business Type Activities- Storm Water	 <u>\$ 4,712,678</u>	 <u>\$ -</u>	 <u>\$ 126,000</u>	 <u>\$ 4,586,678</u>	 <u>\$ 129,339</u>
 Total Business Type Activities- Component Units	 <u>\$ 78,692,915</u>	 <u>\$ 6,964,291</u>	 <u>\$ 8,646,845</u>	 <u>\$ 77,010,361</u>	 <u>\$ 4,381,674</u>

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

For governmental activities, compensated absences and claims and judgments payable are liquidated by the general fund. For governmental activities, the net pension obligation and net other postemployment benefit obligation are liquidated by the general fund.

On December 14, 2012, the City entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for two roll-off trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.55%. A lump sum principal payment is due at the expiration date on July 20, 2014. There is an option to purchase at any point during the agreement for the purchase price and accrued interest.

On May 28, 2013, the City entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for three trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.55%. A lump sum principal payment is due at the expiration date on November 20, 2014. There is an option to purchase at any point during the agreement for the purchase price and accrued interest.

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

10. Long-Term Obligations, continued

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2013</u>
KY Association of Counties Leasing	07/20/2014	4.55%	\$ 298,798
KY Association of Counties Leasing	11/20/2014	4.55%	<u>432,951</u>
Total			<u>\$ 731,749</u>

The future minimum lease obligations as of June 30, 2013, were as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total Lease Payments</u>	<u>Less Imputed Interest</u>	<u>Present Value of Minimum Lease Payments</u>
2014	\$ 33,240	\$ 33,240	\$ -
2015	<u>741,075</u>	<u>9,326</u>	<u>731,749</u>
Total	<u>\$ 774,315</u>	<u>\$ 42,566</u>	<u>\$ 731,749</u>

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

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2013</u>
Kentucky Bond Corporation Revenue, 2011 Series A & B - \$1,835,000	01/01/2021	3.00%-4.00%	\$ 1,487,083
Plus: Unamortized bond premium			<u>28,920</u>
Total			<u>\$ 1,516,003</u>
<u>Business Type Activities-HWEA:</u>	<u>Matures</u>	<u>Rate</u>	<u>2013</u>
Water Sewer Facilities-1998-\$1,650,000	10/01/2021	3.75% to 4.90%	\$ 590,000
Water Sewer Facilities-2005A-\$25,635,000	10/01/2026	3.375% to 4.00%	19,305,000
Water Sewer Facilities-2005B-\$1,545,000	10/01/2017	3.00% to 3.75%	610,000
Water Sewer Facilities-2010-\$3,588,000	04/01/2030	3.20% to 4.40%	<u>3,088,567</u>
			23,593,567
Less: Unamortized bond discount			<u>(264,272)</u>
Total			<u>\$23,329,295</u>

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

10. Long-Term Obligations, continued

<u>Business Type Activities-Solid Waste:</u>	<u>Matures</u>	<u>Rate</u>	<u>2013</u>
Due to City of Hopkinsville, 2011 Series A & B	01/01/2021	3.00 to 4.00%	\$ 1,487,083
Plus: Unamortized bond premium			<u>28,920</u>
Total			<u>\$ 1,516,003</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Interest</u>	<u>Business Type Activities HWEA/Solid Waste</u>	<u>Interest</u>
2014	\$ 177,083	\$ 55,130	\$ 1,684,583	\$ 969,762
2015	182,083	49,375	1,749,583	907,832
2016	187,083	43,457	1,814,583	841,355
2017	192,083	37,377	1,882,083	770,165
2018	199,167	31,134	1,794,167	698,950
2019-2023	207,083	23,807	9,322,584	2,354,964
2024-2028	214,167	15,006	6,457,500	552,217
2029-2030	<u>128,334</u>	<u>5,717</u>	<u>375,567</u>	<u>11,780</u>
Total	<u>\$ 1,487,083</u>	<u>\$ 261,003</u>	<u>\$ 25,080,650</u>	<u>\$ 7,107,025</u>

General obligation bonds were issued in 2003 for the purpose of refunding a floating indebtedness obligation incurred by the City for an unfunded pension liability. General obligation bonds were issued in 2012 for the construction of a city administration building and the renovation of the current city administration building to become the police department. General obligation bonds were issued in 2011 for the purpose of refinancing the lease agreement which was used for the acquisition and construction of a softball complex and fire station. General obligation bonds were issued in 2012 for the purpose of refinancing bonds issued in 2004 and 2006 for the purpose of funding certain project improvements. General obligation bonds were issued in 2009 for the purpose of funding the acquisition, construction, and installation of surface and storm water projects within the jurisdiction of the City. The reduction in total debt service payments and economic gain cannot be determined due to the variable rate and payments of the refunded issue. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2013</u>
Kentucky League of Cities Funding GO, 2003 Series B - \$1,034,000	08/01/2017	4%-5.3%	\$ 460,000

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

10. Long-Term Obligations, continued

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2013</u>
Kentucky League of Cities Funding GO, 2004 Series A - \$1,250,000	03/01/2016	3%-3.75%	\$ 357,077
Kentucky Bond Corporation GO, 2010 First Series A - \$1,055,000	01/01/2019	2.50%	667,083
Kentucky Bond Corporation GO, 2011 Series A - \$4,965,000	02/01/2026	2%-3.125%	4,530,000
Kentucky Bond Corporation GO, 2011 Series B - \$7,220,000	02/01/2037	2%-3.75%	7,170,000
KLC Bond - \$5,100,000	06/01/2038	Variable	<u>4,586,678</u>
			17,770,838
Plus: Unamortized bond premium			145,017
Less: Unamortized bond discount			<u>(34,339)</u>
	Total		<u>\$ 17,881,516</u>

<u>Business Type Activities-Storm Water:</u>	<u>Matures</u>	<u>Rate</u>	<u>2013</u>
Due to City of Hopkinsville, KLC Bond	06/01/2038	Variable	<u>\$ 4,586,678</u>

The City and HWEA have issued notes payable, primarily for the purpose of funding various construction projects and financing a CERS liability. The outstanding debt related to notes payable at June 30, 2013, was:

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2013</u>
Oshkosh Capital - \$610,706	04/12/2017	3%	\$ 454,200
Section 108 Guaranteed Loan - \$1,500,000	08/31/2031	2.50%	<u>1,350,000</u>
	Total		<u>\$ 1,804,200</u>

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

10. Long-Term Obligations, continued

<u>Business Type Activities-HWEA:</u>	<u>Matures</u>	<u>Rate</u>	<u>2013</u>
KIA Fund A Wastewater - \$9,190,530	2016	1.2%	\$ 1,346,451
KIA Fund B Water Plant - \$5,000,000	2026	1.9%	2,517,006
KIA Fund A Phase II - \$3,167,272	2018	1.8%	908,114
KIA Fund A Wastewater - \$240,264	2017	1.2%	52,758
KIA Fund A - \$614,521	2020	0.4%	216,432
KIA Fund A Phase III - \$834,891	2021	3.8%	388,214
KIA Fund A Phase IV - \$4,583,635	2026	1.0%	3,049,808
KIA Fund C Wastewater	2018	4.00 to 4.25%	295,000
KIA Fund F Drinking Water - \$1,513,593	2028	1.0%	1,163,016
KIA Fund A Phase V - \$2,469,924	2027	1.0%	1,784,762
KIA Fund F Water - \$3,887,432	2028	3.0%	3,220,599
KIA Fund F Water - \$8,800,000	2032	1.0%	8,600,719
KIA Fund A-loan not closed yet			14,768,632
KY Rural Finance	2025	3.125 to 4.50%	387,500
KY Rural Finance	2029	2.28 to 4.405%	1,343,000
City of Hopkinsville - \$120,000	Undetermined	N/A	<u>109,293</u>
Total			<u>\$ 40,151,304</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities Principal</u>	<u>Interest</u>	<u>Enterprise Fund Component Units Principal</u>	<u>Interest</u>
2014	\$ 904,721	\$ 587,455	\$ 2,356,299	\$ 578,400
2015	997,898	577,857	2,290,533	538,884
2016	954,755	550,922	2,046,300	498,647
2017	891,464	525,467	1,807,763	463,255
2018	795,379	500,523	1,829,739	427,897
2019-2023	3,322,500	2,227,860	8,056,630	1,657,204
2024-2028	3,715,126	1,726,857	6,709,379	888,731
2029-2033	4,168,005	1,105,358	18,214,078	367,039
2034-2038	<u>3,825,190</u>	<u>367,081</u>	<u>1,427,261</u>	<u>119,557</u>
Total	<u>\$ 19,575,038</u>	<u>\$ 8,169,380</u>	<u>\$ 44,737,982</u>	<u>\$ 5,539,614</u>

During March 2009, the Kentucky League of Cities Funding Trust Program issued a general obligation bond to the Storm Water for \$5,100,000 for the purpose of funding the acquisition, construction, and installation of surface and storm water projects within the jurisdiction of the City. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The bond has a variable interest rate, currently 0.088% plus administrative fees, and matures on June 1, 2038.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

10. Long-Term Obligations, continued

Defeased Bonds Outstanding

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

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On June 30, 2013, the amount of bonds outstanding for HWEA considered defeased is undeterminable.

11. Interest Capitalization

Total interest cost incurred for the City for the year ended June 30, 2013 was \$497,980. Interest capitalized was \$300,671, and interest expensed was \$197,309 for the year ended June 30, 2013.

Total interest cost incurred for HWEA for the year ended June 30, 2013 was \$1,769,387. Interest cost capitalized was \$134,155, and interest cost expensed was \$1,635,232 for the year ended June 30, 2013.

Total interest cost incurred for Solid Waste for the year ended June 30, 2013 was \$71,851. Interest cost capitalized was \$1,638, and interest cost expensed was \$70,213.

Total interest cost incurred for the Storm Water was \$84,457 for the year ended June 30, 2013. Interest cost capitalized was \$21,114 and interest cost expensed was \$63,343 for the year ended June 30, 2013.

12. Deferred Charges

The bond issuance costs, premiums, and discounts associated with the issuance of the general obligation bonds payable for the City are being amortized on the straight-line method over the term of the bonds. Total amortization of the bond issuance costs for the year was \$19,201. Of the \$19,201, amortization of the bond issuance costs that was charged to operations during the year was \$14,949. Amortization of bond issuance costs that was capitalized during the year was \$4,252. Amortization of the premium that was included in operations during the year was \$14,615. Amortization of the discount that was capitalized during the year was \$1,456.

The bond issuance costs and discounts associated with the issuance of the revenue bonds payable for HWEA are being amortized on the straight-line method over the term of the bonds. Amortization of the bond issuance costs that was charged to operations during

Continued

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

12. Deferred Charges, continued

the year was \$23,492. Amortization of the discount that was charged to operations during the year was \$29,819.

The bond issuance costs and premiums associated with the issuance of the revenue bonds payable for the Solid Waste are being amortized on the straight-line method over the term of the bonds. Amortization of the bond issuance costs that was charged to non-operating expenses during the year was \$6,544. Amortization of the premium that was included in non-operating expenses during the year was \$3,813.

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

13. Leases

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

HWEA did not have any capital leases at year-end.

On August 30, 2012, Solid Waste leased two residential trucks. The vehicles are leased at \$79,766 per year for a term of six years at an interest rate of 3.30%. This first annual payment is due September 10, 2013. The lease expires on September 10, 2018. There is a purchase option on each rental payment due date for the amount due on such date plus the purchase option price set forth in the lease agreement.

Solid Waste is liable to the City for debt that mirrors the City's debt to Kentucky Association of Counties Leasing Trust. On December 14, 2012, Solid Waste leased two roll-off trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.55%. A lump sum principal payment is due at the expiration date on July 20, 2014. There is an option to purchase at any point during the agreement for the purchase price and accrued interest.

Solid Waste is liable to the City for debt that mirrors the City's debt to Kentucky Association of Counties Leasing Trust. On May 28, 2013, Solid Waste leased three trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.55%. A lump sum principal payment is due at the expiration date of November 20, 2014. There is an option to purchase at any point during the agreement for the purchase price and accrued interest.

Continued

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

13. Leases, continued

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

	<u>2013</u>
Equipment under capital leases	\$1,238,649
Less accumulated depreciation	(128,559)
Total	<u>\$1,112,090</u>

Amortization of leased equipment under capital assets is included in depreciation expense.

The future minimum lease obligations as of June 30, 2013, were as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total Lease Payments</u>	<u>Less Imputed Interest</u>	<u>Present Value of Minimum Lease Payments</u>
2014	\$ 106,924	\$ 41,468	\$ 65,456
2015	534,484	33,884	500,600
2016	379,695	10,982	368,713
2017	79,766	7,509	72,257
2018	76,766	5,088	74,678
2019	79,766	2,587	77,179
Total	<u>\$ 1,260,401</u>	<u>\$ 101,518</u>	<u>\$ 1,158,883</u>

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

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

The Storm Water leases the watershed lake known as Lake Blythe located in Christian County, Kentucky from the City of Hopkinsville. The lease is for the Storm Water to use the watershed lake for flood control and water storage activities. The term of this lease is for a period of twenty (20) years beginning August 6, 2009, and ending August 5, 2029. The lessee or lessor may terminate the lease at any time during the lease period with a one (1) year written notice as to its intent to terminate the lease. The lease shall be

Continued

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

13. Leases, continued

automatically extended by a twenty (20) year period if no notice is given within the one (1) year time period provided. The Storm Water will pay the sum of \$1 per year to the City and further maintain property in the manner stated in the lease. The Storm Water will provide insurance for coverage of activities on the premises. Also, the Storm Water must honor existing lease agreements running with the premises.

14. Interfund Transfers

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

Interfund transfers for the year ended June 30, 2013, consisted of the following:

	Transfer From:					
	General Fund	Tie Breaker Family Fund	City Hall/PD Construction Fund	Nonmajor Governmental Type	Nonmajor Enterprise Type	Total
General Fund	\$ -	\$ -	\$ -	\$ 311,897	\$ 199,545	\$ 511,442
Tie Breaker Family Fund	125,000	-	-	-	-	125,000
City Hall/PD Construction	-	-	-	-	-	-
Nonmajor Governmental Type	2,204,381	-	-	37,941	-	2,242,322
Nonmajor Enterprise Type	-	-	-	-	-	-
Total	<u>\$ 2,329,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 349,838</u>	<u>\$ 199,545</u>	<u>\$ 2,878,764</u>

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

	Noncash
Transfers from Grounds Maintenance Fund to:	
General Fund	<u>\$ 395,203</u>

15. Interfund Balances

There were no interfund receivables or payables between the governmental funds at June 30, 2013.

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

16. Fund Balance Classification

The composition of the fund balance classifications at June 30, 2013 are as follows:

	Major Funds		Other	
	General	City Hall/PD Construction	Governmental Funds	Total
Fund balances:				
Nonspendable:	\$ -	\$ -	\$ -	\$ -
Restricted for:				
City Hall/PD Construction	-	4,203,973	-	4,203,973
Municipal road aid	-	-	13,265	13,265
Community development block grant	-	-	-	-
Police incentive	-	-	19,557	19,557
Fire incentive	-	-	22,378	22,378
Urban development action grant	-	-	812,273	812,273
Grants	-	-	172,885	172,885
Expendable trust	-	-	518,004	518,004
Cable tv work order	-	-	-	-
Fire dept haz mat	-	-	-	-
Capital fund	-	-	1,774,432	1,774,432
Section 108 CDBG fund	-	-	1,377,425	1,377,425
Nonexpendable trust	-	-	397,083	397,083
Committed:				
General government	197,754	-	-	197,754
Public safety	76,618	-	73,152	149,770
Public works	-	-	-	-
Community development	741,552	-	-	741,552
Parks and recreation	32,736	-	-	32,736
Assigned:				
General government	84,743	-	-	84,743
Public safety	62,509	-	80,985	143,494
Public works	77,511	-	-	77,511
Community development	30,790	-	-	30,790
Parks and recreation	56,830	-	-	56,830
Municipal road aid	-	-	271,735	271,735
Other purposes	-	-	217,787	217,787
Unassigned:	<u>7,843,842</u>	<u>-</u>	<u>-</u>	<u>7,843,842</u>
Total fund balances:	<u>\$ 9,204,885</u>	<u>\$ 4,203,973</u>	<u>\$ 5,750,961</u>	<u>\$ 19,159,819</u>

Continued

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

17. Claims and Judgments

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

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

18. Community Development Loan Funds

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

19. Contingencies

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

20. Risk Management

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

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

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

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

20. Risk Management, continued

The Health Insurance Fund was established to account for the City's employee health care coverage program that is self-insured by the City. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At June 30, 2013, the claims liability was \$40,935 (a current liability to be paid with current assets). Changes in the claims liability during the last two years are as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Fiscal Year</u>
2011-2012	\$ 146,452	\$1,462,351	\$1,551,561	\$ 57,242
2012-2013	\$ 57,242	\$1,414,131	\$1,430,438	\$ 40,935

HWEA's health insurance premiums are composed of a fixed and a variable portion. The variable portion is based on actual claims experienced during the year and fluctuates each month based on claims. Premiums accrued for health insurance are based on the year-to-date claims experience of HWEA. At June 30, 2013, the claims liability was \$30,435. Changes in the claims liability during the last two fiscal years are as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Fiscal Year</u>
2011-2012	\$ 96,691	\$ 257,191	\$ 323,808	\$ 30,074
2012-2013	\$ 30,074	\$ 253,295	\$ 313,804	\$ 30,435

21. Closure and Postclosure Care Costs/Special Item

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

The \$5,767,215 reported as Solid Waste landfill closure and postclosure care liability at June 30, 2013, represents the cumulative amount reported to date based on the use of approximately 71 percent of the capacity of the landfill. These amounts are based on what

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

21. Closure and Postclosure Care Costs/Special Item, continued

it would cost to perform all closure and postclosure care in 2013 as estimated by the consulting engineer. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

This total amount of closure and postclosure costs are estimated to be \$7,988,614, leaving \$2,221,399 remaining to be recognized. The remaining life of the landfill is estimated to be 15 years.

The City of Hopkinsville and the Solid Waste are required by state and federal laws and regulations to provide assurances that financial resources will be available to provide for landfill closure and postclosure care. The Solid Waste is in compliance with these requirements, as determined by the Kentucky Natural Resources and Environmental Protection Cabinet, by entering into a performance agreement that calls for scheduled future annual funding contributions to the closure account. At June 30, 2013, \$2,500,000 is held for such purposes and reported as restricted assets on the balance sheet. The Solid Waste expects future inflation costs will be paid from these funds combined with the scheduled future funding and related investment income. However, if earnings are inadequate or additional postclosure care requirements are determined due to changes in technology, laws, regulations, or other, additional funding would be required.

22. Deferred Grant Revenues

The Storm Water received grant money from the Kentucky Agricultural Development Board and other agencies totaling \$241,000. The grants were to be used for a research study by the U.S. Geological Survey to identify different sources of pathogens, sediment, and nitrogen in the Little River Basin of Kentucky. The study is to be conducted over three years. The grant was recorded as deferred revenue that is being recognized as income over the life of the study. Grant income recognized in the year ended June 30, 2013 was \$80,333. The amount of deferred grant revenue at June 30, 2013 was \$160,667.

23. Related Party Transactions

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

Solid Waste paid HWEA \$66,888 for providing customer billing and collection services and \$124,194 for leachate purification services for the year ended June 30, 2013. Accounts payable for these services at June 30, 2013 was \$39,024.

The City assesses a percentage of Solid Waste revenue as payment in lieu of taxes. The Solid Waste paid the City \$181,995 for payment in lieu of taxes for the year ended June 30, 2013. At June 30, 2013, accounts payable for these payments was \$14,433.

Continued

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

23. Related Party Transactions, continued

The Storm Water has contracted services with the City for bookkeeping services to be done by the Finance Department. This contract requires Storm Water to pay the City \$850 each month for work done by the Finance Department. For the year ended June 30, 2013, the total amount paid to the Finance Department was \$10,200. The Storm Water has contracted services with Community and Development Services for administration services and code enforcement for \$13,333 each month. For the year ended June 30, 2013, the total amount paid to Community and Development Services for the services was \$170,000.

HWEA provides utility billing and cash collection services for the Storm Water. HWEA charges the Storm Water for these services. For the year ended June 30, 2013, the expense for billing and collection services totaled \$58,740. At June 30, 2013, accounts payable for these services was \$4,723.

24. Subsequent Event

Subsequent to year end, the City issued a bond in the amount of \$4.03 million. The City will use this financing to complete the construction of the new municipal building and the renovation of the Lackey Building into a police station.

Subsequent to year end, the City issued a bond on behalf of HWEA in the amount of \$3.52 million. Another \$7.5 million loan was awarded to HWEA from the Kentucky Infrastructure Authority. HWEA will use this financing toward the 2MG Westside Elevated Water Tank and Water Main Extension Project.

25. Special Items

HWEA decommissioned the Northside Waste Water Treatment Plant and turned the plant into a pumping station to send sewage to the Hammond Wood Waste Water Treatment Plant. Demolition costs of \$110,000 were incurred for this project, and losses totaling \$365,190 were a result of certain assets not being fully depreciated at the time of the decommissioning/demolition. The total of these items, \$475,190, is presented as a special item on the statement of revenues, expenses, and changes in net position.

The Solid Waste completed construction of a vertical expansion of the landfill in 2011. This expansion resulted in new permitting that incorporated changes in technology and environmental requirements resulting in a significant decrease to the projected closure and post closure costs. The resulting gain is considered a special item on the statement of revenues, expenses, and changes in net position.

The Storm Water abandoned/terminated the Dry Dam project which consisted of a feasibility study totaling \$331,960. Since this was being accumulated in construction in progress to be added to the cost of the Dry Dam project once it was completed, this was written off of construction in progress in the year ended June 30, 2013. The resulting loss is considered a special item.

Continued

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

26. The Single Audit Act

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

**CITY OF HOPKINSVILLE, KENTUCKY
 REQUIRED SUPPLEMENTARY INFORMATION
 POLICE AND FIREMEN DEFINED BENEFIT PENSION TRUST
 June 30, 2013**

1. SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
1/1/2006	\$ 827,258	\$ 4,376,738	\$ 3,549,480	18.9	\$ -	N/A
1/1/2009	863,187	4,163,118	3,299,931	20.7	-	N/A
1/1/2012	1,024,444	3,919,278	2,894,834	26.1	-	N/A

2. SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	701,402	57.5%
2010	761,220	53.0%
2011	761,220	52.5%
2012	761,220	52.5%
2013	761,220	52.5%

3. NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Valuation Date	01/01/12
Valuation Method	Entry age normal funding method (an aggregate variation)
Amortization method and period	Amortization period selected by actuary is five (5) years. Amortization is achieved using level dollar payments sufficient to pay interest on the unamortized amount each year.
Actuarial asset valuation method	Mean of book and market value
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increases	None
Post retirement benefit increases	None
Inflation	None

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)
ON BUDGETARY ACCOUNTING AND CONTROL
For the Year Ended June 30, 2013**

Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting:

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

The City reports financial position, results of operations and changes in fund balance on the modified-accrual basis of generally accepted accounting principles (GAAP). The budget for the General Fund is legally adopted based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Budgetary Comparison Schedule presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The City Hall/Police Department Construction Fund is not required to legally adopt a budget.

A reconciliation of resultant basis, timing, perspective, and entity differences in the excess of expenditures and other financing uses over revenues and other financing sources for the year ended June 30, 2013, of the General Fund is presented below.

Excess of expenditures and other financing uses over revenues and other financing sources (budgetary basis)	\$ (130,359)
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Adjustments:

To adjust expenditures for salary accruals	(24,548)
To adjust expenditures for payable accruals	(30,659)
To adjust revenues for tax and license accruals	<u>(363,153)</u>

Excess of expenditures and other financing uses over revenues and other financing sources (GAAP basis)	<u>\$ (548,719)</u>
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Note: See Note A on the following page as an aid in the reconciliation of the Budgetary Comparison Schedule to the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds.

City of Hopkinsville, Kentucky
Note to Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

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

	<u>General Fund (Budgetary)</u>	<u>Budgetary to GAAP Adjustments *</u>	<u>Special Revenue Funds</u>	<u>Total</u>
REVENUES				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	28,451,503	28,451,503	1,245	28,452,748
Adjustments:				
The City budgets for receivables on the cash basis, rather than on the modified accrual basis	-	(363,153)	-	(363,153)
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	-	-	-	-
Total revenues as reported on the budgetary comparison schedule	<u>28,451,503</u>	<u>+ 28,088,350</u>	<u>1,245</u>	<u>28,089,595</u> ^
EXPENDITURES				
Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule	(26,044,152)	(26,044,152)	1,245	(26,042,907)
Adjustments:				
The City budgets for payables on the cash basis, rather than on the modified accrual basis	-	(30,659)	8,750	(21,909)
The City budgets for payroll on the cash basis, rather than on the modified accrual basis	-	(24,548)	-	(24,548)
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	-	-	(496,174)	(496,174)
Total expenditures as reported on the budgetary comparison schedule	<u>(26,044,152)</u>	<u>+ (26,099,359)</u>	<u>(486,179)</u>	<u>(26,585,538)</u> ^
OTHER FINANCING SOURCES (USES)				
Transfers in	499,928	499,928	11,514	511,442
Transfers out	<u>(3,037,638)</u>	<u>(3,037,638)</u>	<u>708,257</u>	<u>(2,329,381)</u>
Total other financing sources (uses)	<u>(2,537,710)</u>	<u>+ (2,537,710)</u>	<u>719,771</u>	<u>(1,817,939)</u> ^
Excess of revenues and other financing sources over/ (under) expenditures and other financing uses	<u>\$ (130,359)</u>	<u>+ \$ (548,719)</u> **	<u>\$ 234,837</u>	<u>\$ (313,882)</u> ^
Reclassifications:				
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	<u>\$ (708,257)</u>	<u>\$ -</u>	<u>\$ 708,257</u>	<u>\$ -</u>

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

+ As reported on the budgetary comparison schedule

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

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

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013**

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
ASSETS				
Pooled cash and cash equivalents	\$ 1,067,974	\$ 1,992,219	\$ -	\$ 3,060,193
Non-pooled cash and cash equivalents	130,480	1,377,425	81,362	1,589,267
Investments	387,524	-	315,721	703,245
Loans receivable	190,279	-	-	190,279
Due from component unit	109,293	-	-	109,293
Other receivables	<u>177,029</u>	<u>-</u>	<u>-</u>	<u>177,029</u>
Total assets	<u>\$ 2,062,579</u>	<u>\$ 3,369,644</u>	<u>\$ 397,083</u>	<u>\$ 5,829,306</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 78,345	\$ -	\$ -	\$ 78,345
Interfund payables	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>78,345</u>	<u>-</u>	<u>-</u>	<u>78,345</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	1,830,097	3,369,644	397,083	5,596,824
Committed	154,137	-	-	154,137
Assigned	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,984,234</u>	<u>3,369,644</u>	<u>397,083</u>	<u>5,750,961</u>
Total liabilities and fund balances	<u>\$ 2,062,579</u>	<u>\$ 3,369,644</u>	<u>\$ 397,083</u>	<u>\$ 5,829,306</u>

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ 3,125,799	\$ -	\$ -	\$ 3,125,799
Investment income	9,092	-	(5,535)	3,557
Insurance proceeds	-	76,116	-	76,116
Donations	-	102,275	2,591	104,866
Other	55,745	-	10,532	66,277
	<u>3,190,636</u>	<u>178,391</u>	<u>7,588</u>	<u>3,376,615</u>
Total revenues				
EXPENDITURES				
Current:				
General government	13,270	38,522	12,264	64,056
Public safety	1,282,180	370,697	-	1,652,877
Public works	153,381	41,062	-	194,443
Community development	1,026,680	-	-	1,026,680
Debt Service:				
Principal	150,000	105,196	-	255,196
Interest	50,287	17,229	-	67,516
Expenditures	-	-	-	-
Capital outlay	599,585	171,753	-	771,338
	<u>3,275,383</u>	<u>744,459</u>	<u>12,264</u>	<u>4,032,106</u>
Total expenditures				
Excess of revenues over (under) expenditures	<u>(84,747)</u>	<u>(566,068)</u>	<u>(4,676)</u>	<u>(655,491)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	35,241	2,207,081	-	2,242,322
Transfers out	(49,455)	(300,383)	-	(349,838)
Issuance of debt	-	-	-	-
	<u>(14,214)</u>	<u>1,906,698</u>	<u>-</u>	<u>1,892,484</u>
Total other financing sources (uses)				
Net change in fund balances	(98,961)	1,340,630	(4,676)	1,236,993
Fund balances, beginning of year	2,083,195	2,029,014	401,759	4,513,968
Fund balances, end of year	<u>\$ 1,984,234</u>	<u>\$ 3,369,644</u>	<u>\$ 397,083</u>	<u>\$ 5,750,961</u>

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2013**

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Miscellaneous Grants	Drug Enforcement	Expendable Trust Funds	Cable TV Work Order	Fire Dept Haz Mat	Total Nonmajor Special Revenue Funds
ASSETS											
Pooled cash and cash equivalents	\$ 285,075	\$ -	\$ 19,557	\$ 22,378	\$ 512,701	\$ 74,126	\$ 154,137	\$ -	\$ -	\$ -	\$ 1,067,974
Non-pooled cash and cash equivalents	-	-	-	-	-	-	-	130,480	-	-	130,480
Investments	-	-	-	-	-	-	-	387,524	-	-	387,524
Loans receivable	-	-	-	-	190,279	-	-	-	-	-	190,279
Due from component unit	-	-	-	-	109,293	-	-	-	-	-	109,293
Other receivables	-	405	-	-	-	176,624	-	-	-	-	177,029
Total assets	\$ 285,075	\$ 405	\$ 19,557	\$ 22,378	\$ 812,273	\$ 250,750	\$ 154,137	\$ 518,004	\$ -	\$ -	\$ 2,062,579
LIABILITIES AND FUND BALANCES											
LIABILITIES											
Accounts payable	\$ 75	\$ 405	\$ -	\$ -	\$ -	\$ 77,865	\$ -	\$ -	\$ -	\$ -	\$ 78,345
Interfund payables	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	75	405	-	-	-	77,865	-	-	-	-	78,345
FUND BALANCES											
Nonspendable	-	-	-	-	-	-	-	-	-	-	-
Restricted	285,000	-	19,557	22,378	812,273	172,885	-	518,004	-	-	1,830,097
Committed	-	-	-	-	-	-	154,137	-	-	-	154,137
Assigned	-	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-	-
Total fund balances	285,000	-	19,557	22,378	812,273	172,885	154,137	518,004	-	-	1,984,234
Total liabilities and fund balances	\$ 285,075	\$ 405	\$ 19,557	\$ 22,378	\$ 812,273	\$ 250,750	\$ 154,137	\$ 518,004	\$ -	\$ -	\$ 2,062,579

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2013

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Miscellaneous Grants	Drug Enforcement	Expendable Trust Funds	Cable TV Work Order	Fire Dept Haz Mat	Total Nonmajor Special Revenue Funds
REVENUES											
Intergovernmental	\$ 780,955	\$ 472,237	\$ 224,405	\$ 242,080	\$ -	\$ 1,406,122	\$ -	\$ -	\$ -	\$ -	\$ 3,125,799
Investment income	403	-	-	-	-	-	-	8,689	-	-	9,092
Other	-	-	-	-	2,311	-	43,434	-	10,000	-	55,745
Total revenues	781,358	472,237	224,405	242,080	2,311	1,406,122	43,434	8,689	10,000	-	3,190,636
EXPENDITURES											
General government	-	-	-	-	-	-	-	13,270	-	-	13,270
Public safety	-	-	222,278	239,077	-	796,815	24,010	-	-	-	1,282,180
Public works	153,381	-	-	-	-	-	-	-	-	-	153,381
Community development	-	271,950	-	-	-	743,830	-	-	10,900	-	1,026,680
Debt Service:											
Principal	-	150,000	-	-	-	-	-	-	-	-	150,000
Interest	-	50,287	-	-	-	-	-	-	-	-	50,287
Capital Outlay	599,585	-	-	-	-	-	-	-	-	-	599,585
Total expenditures	752,966	472,237	222,278	239,077	-	1,540,645	24,010	13,270	10,900	-	3,275,383
Excess of revenues over (under) expenditures	28,392	-	2,127	3,003	2,311	(134,523)	19,424	(4,581)	(900)	-	(84,747)
OTHER FINANCING SOURCES (USES)											
Transfers in	-	-	-	-	-	34,341	-	-	900	-	35,241
Transfer out	(34,341)	-	-	-	-	(15,114)	-	-	-	-	(49,455)
Issuance of debt	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(34,341)	-	-	-	-	19,227	-	-	900	-	(14,214)
Net change in fund balances	(5,949)	-	2,127	3,003	2,311	(115,296)	19,424	(4,581)	-	-	(98,961)
Fund balances, beginning of year	290,949	-	17,430	19,375	809,962	288,181	134,713	522,585	-	-	2,083,195
Fund balances, end of year	\$ 285,000	\$ -	\$ 19,557	\$ 22,378	\$ 812,273	\$ 172,885	\$ 154,137	\$ 518,004	\$ -	\$ -	\$ 1,984,234

**City of Hopkinsville, Kentucky
Budgetary Comparison Schedule
Municipal Road Aid Special Revenue Fund
For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
REVENUES				
Intergovernmental	\$ 725,500	\$ 778,841	\$ 780,955	\$ 2,114
Other	-	-	-	-
Interest	<u>500</u>	<u>500</u>	<u>403</u>	<u>(97)</u>
Total Revenues	<u>726,000</u>	<u>779,341</u>	<u>781,358</u>	<u>2,017</u>
 EXPENDITURES				
Public works	726,000	459,382	153,306	306,076
Capital outlay	<u>-</u>	<u>599,585</u>	<u>599,585</u>	<u>-</u>
Total expenditures	<u>726,000</u>	<u>1,058,967</u>	<u>752,891</u>	<u>306,076</u>
Excess of revenues over/(under) expenditures	<u>-</u>	<u>(279,626)</u>	<u>28,467</u>	<u>308,093</u>
 OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>(34,341)</u>	<u>(34,341)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(34,341)</u>	<u>(34,341)</u>
Net change in fund balance	-	(279,626)	(5,874)	273,752
Fund balance, beginning of year	<u>290,949</u>	<u>290,949</u>	<u>290,949</u>	<u>-</u>
Fund balance, end of year	<u>\$ 290,949</u>	<u>\$ 11,323</u>	<u>\$ 285,075</u>	<u>\$ 273,752</u>
Excess of revenues and other financing sources (uses) over expenditures and other financing uses (budgetary budget)			\$ (5,874)	
Adjustments:				
To adjust expenditures for payable accruals			<u>(75)</u>	
Excess of revenues and other financing sources (uses) over expenditures and other financing uses (GAAP basis)			<u>(5,949)</u>	

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2013**

	<u>Capital Fund</u>	<u>Section 108 CDBG Loan Fund</u>	<u>Total Nonmajor Capital Projects Funds</u>
ASSETS			
Pooled cash and cash equivalents	\$ 1,992,219	\$ -	\$ 1,992,219
Non-pooled cash and cash equivalents	-	1,377,425	1,377,425
Loans receivable	<u>-</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 1,992,219</u>	 <u>\$ 1,377,425</u>	 <u>\$ 3,369,644</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>
 Total liabilities	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	1,992,219	1,377,425	3,369,644
Committed	-	-	-
Assigned	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
 Total fund balances	 <u>1,992,219</u>	 <u>1,377,425</u>	 <u>3,369,644</u>
 Total liabilities and fund balances	 <u>\$ 1,992,219</u>	 <u>\$ 1,377,425</u>	 <u>\$ 3,369,644</u>

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2013

	Capital Fund	Section 108 CDBG Loan Fund	Total Nonmajor Capital Projects Funds
REVENUES			
Insurance proceeds	\$ 76,116	\$ -	\$ 76,116
Donations	102,275	-	102,275
Investment income	-	-	-
Total revenues	<u>178,391</u>	<u>-</u>	<u>178,391</u>
EXPENDITURES			
Current:			
General government	37,220	1,302	38,522
Public safety	370,697	-	370,697
Public works	41,062	-	41,062
Community development	-	-	-
Debt service:			
Principal	105,196	-	105,196
Interest	17,229	-	17,229
Expenditures	-	-	-
Capital outlay	<u>111,677</u>	<u>60,076</u>	<u>171,753</u>
Total expenditures	<u>683,081</u>	<u>61,378</u>	<u>744,459</u>
Excess of revenues over (under) expenditures	<u>(504,690)</u>	<u>(61,378)</u>	<u>(566,068)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	2,203,481	3,600	2,207,081
Transfers out	(300,383)	-	(300,383)
Issuance of debt	-	-	-
Total other financing sources (uses)	<u>1,903,098</u>	<u>3,600</u>	<u>1,906,698</u>
Net change in fund balances	1,398,408	(57,778)	1,340,630
Fund balances, beginning of year	<u>593,811</u>	<u>1,435,203</u>	<u>2,029,014</u>
Fund balances, end of year	<u>\$ 1,992,219</u>	<u>\$ 1,377,425</u>	<u>\$ 3,369,644</u>

CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identifying Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development			
Community Development Block Grants / Entitlement Grants	14.218	B10-MC-210002 B11-MC-210002	\$ 223,481 * <u>248,756</u> * 472,237
Community Development Block Grants - Section 108 Loan Guarantees	14.248	B-10-MC-21-0002	76,063
Home Investment Partnerships Program (Passed through Kentucky Housing Corp.)	14.239	GF11-0351-02 GF12-0351-02	2,814 <u>63,000</u> 65,814
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-10-SP-KY0104	74,080
Department of Homeland Security			
Homeland Security Grant Program (Passed through Kentucky Office of Homeland Security)	97.067	PO2-094-1200002942-1	845
Hazard Mitigation Grant (Passed through Kentucky Office of Emergency Management)	97.039	HMGP DR-1818-0011	13,640
Assistance to Firefighters Grant	97.044	EMW-2011-FO-04634	466,028 *
Department of Justice			
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	GL-KYW-122	37,735
Bulletproof Vest Partnership Program	16.607		3,701
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0370	196,644
Department of Transportation			
State and Community Highway Safety (Passed through Kentucky Transportation Cabinet)	20.600	PO2-625-1300001545-1	15,460
Highway Planning and Construction (Passed through Kentucky Transportation Cabinet)	20.205	PO2-628-1000004388	<u>20,487</u>
Total Federal Expenditures			<u>\$ 1,442,734</u>

*Denotes major program

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2013**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of City of Hopkinsville, Kentucky under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the City.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles of OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

NOTE C - SUBRECIPIENTS

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Community Development Block Grant	14.218	<u>\$ 37,617</u>



& CO. - HOPKINSVILLE LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

1113 BETHEL STREET
HOPKINSVILLE, KENTUCKY 42240
(270) 886-0206 - FAX (270) 886-0875

FIRM ID # 61-1313802

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

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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hopkinsville, Kentucky, as of and for the year ended June 30, 2013, which collectively comprise the City of Hopkinsville, Kentucky's basic financial statements and have issued our report thereon dated January 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hopkinsville, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hopkinsville, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hopkinsville, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

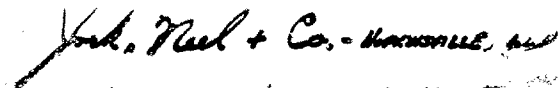
Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Hopkinsville, Kentucky in a separate letter dated January 30, 2014.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hopkinsville, Kentucky
January 30, 2014



& CO. - HOPKINSVILLE LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

1113 BETHEL STREET
HOPKINSVILLE, KENTUCKY 42240
(270) 886-0206 - FAX (270) 886-0875

FIRM ID # 61-1313802

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited City of Hopkinsville, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Hopkinsville, Kentucky's major federal programs for the year ended June 30, 2013. City of Hopkinsville, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

City of Hopkinsville's basic financial statements include the operations of Hopkinsville Water Environment Authority (a discretely presented component unit), which received \$2,984,999 in federal awards which is not included in the schedule during the year ended June 30, 2013. Our audit, described below, did not include the operations of Hopkinsville Water Environment Authority because Hopkinsville Water Environment Authority had a separately issued report in accordance with OMB Circular A-133.

City of Hopkinsville's basic financial statements include the operations of Hopkinsville Surface and Storm Water Utility (a discretely presented component unit), which received \$2,035,289 in federal awards which is not included in the schedule during the year ended June 30, 2013. Our audit, described below, did not include the operations of Hopkinsville Surface and Storm Water Utility because Hopkinsville Surface Storm Water and Utility had a separately issued report in accordance with OMB Circular A-133.

Management Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Hopkinsville, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hopkinsville, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Hopkinsville, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Hopkinsville, Kentucky complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

York, Neal + Co., - HOPKINSVILLE, KY

Hopkinsville, Kentucky
January 30, 2014

CITY OF HOPKINSVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>CFDA Number:</u>	<u>Name of Federal Program or Cluster:</u>
14.218	Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants
97.044	Department of Homeland Security – Assistance to Firefighters Grant

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement Findings

- No matters were reported.

Section III – Federal Award Findings and Questioned Costs

- No matters were reported.

CITY OF HOPKINSVILLE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

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