

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



**For the Year Ended
June 30, 2014**

**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, 2014, 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 involves 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 policies 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, 2014, 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.

Change in Accounting Principle

As described in Note 1W to the financial statements, in 2014, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedule on pages 4-15 and page 74 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 budgetary comparison information and 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.

To the Honorable Mayor
and City Council
City of Hopkinsville, Kentucky
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The budgetary comparison information, combining nonmajor fund financial statements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 budgetary comparison information, combining nonmajor fund financial statements, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic 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 26, 2015, 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 to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hopkinsville, Kentucky's internal control over financial reporting and compliance.



Hopkinsville, Kentucky
January 26, 2015

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, 2014. 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 \$30.9 million (net position). This amount includes \$5.54 million that are restricted to specific projects by laws, regulations, or contractual agreements. A total of \$(396) thousand of resources are unrestricted and are available to fund the City's outstanding obligations and future programs.
- The City's total net position decreased \$(188) thousand this year. Net position of governmental activities increased \$6 thousand and net position of business-type activities decreased by \$194 thousand.
- As of June 30, 2014, the City's governmental funds reported combined ending fund balances of \$17.6 million, a decrease of \$1.53 million from the prior year. Approximately \$8.6 million, 48.59% of this total amount, is unassigned and available for spending.
- The City's governmental activities total debt increased overall by \$7.583 million. The debt increased by \$4.003 million due to the City's issuance of debt and decreased by \$775 thousand due to the repayment of debt. Debt increased by \$9.589 million due to the issuance of new debt on behalf of the three component units and decreased \$5.234 million due to the component units' repayment of debt.

II. Overview of Financial Statements

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

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

A. Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of City finances in a manner similar to private-sector business.

The Statement of Net 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.

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 thirteen (13) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and City Hall/Police Department Construction Fund, which are considered to be major funds. Data from the other eleven (11) governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net 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 one enterprise fund to account for the Tie Breaker Family Aquatic Center, as well as the discretely presented component units that provide water and sewerage services, solid waste services, and storm water utility.

b. Internal Service funds. Internal Service Funds are used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its health insurance operations.

Proprietary funds provide the same kind of information as government-wide financial statements, but in greater detail. Individual data for the proprietary fund financial statements is presented in the form of combining statements at pages 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 29-73 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 78-84 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 \$30.9 million, a decrease of \$(188) thousand from last year. Of the \$30.9 million, \$25.8 million or 83.4% was net investment in capital assets, and \$(396) thousand or (1.3)% was unrestricted. Net position of governmental activity funds total \$27.7 million, with \$22.6 million or 81.5% net investment in capital assets and \$(411) thousand or (1.5)% 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 negative 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	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 32,027,139	\$ 28,452,912	\$ 95,035	\$ 98,680	\$ 32,122,174	\$ 28,551,592
Capital assets	32,099,317	25,856,903	3,215,646	3,332,760	35,314,963	29,189,663
Deferred outflows of resources	57,614	-	-	-	57,614	-
Total assets	\$ 64,184,070	\$ 54,309,815	\$ 3,310,681	\$ 3,431,440	\$ 67,494,751	\$ 57,741,255
Long-term liabilities outstanding	\$ 32,532,728	\$ 23,760,869	\$ -	\$ -	\$ 32,532,728	\$ 23,760,869
Other liabilities	3,960,078	2,650,397	80,472	6,721	4,040,550	2,657,118
Total liabilities	\$ 36,492,806	\$ 26,411,266	\$ 80,472	\$ 6,721	\$ 36,573,278	\$ 26,417,987
Net position:						
Net investment in						
Capital assets	\$ 22,565,797	\$ 17,171,414	\$ 3,215,646	\$ 3,332,760	\$ 25,781,443	\$ 20,504,174
Restricted	5,536,189	6,840,801	-	-	5,536,189	6,840,801
Unrestricted	(410,722)	3,886,334	14,563	91,959	(396,159)	3,978,293
Total net position	\$ 27,691,264	\$ 27,898,549	\$ 3,230,209	\$ 3,424,719	\$ 30,921,473	\$ 31,323,268

The net position of the City's business-type activities total \$3.230 million. Of the net position total, \$3.216 million (99.5%) was net investment in capital assets with an unrestricted fund balance of \$14 thousand (0.5%).

A. Analysis of the City's Operations

The following table provides a summary of the City's operations for the year ended June 30, 2014. Governmental activities increased the City's net position by \$6.9 thousand, accounting for 4% of the change in the net position. Business-type activities decreased the City's net position by (\$194.5 thousand), which was (104%) of the total decrease.

City of Hopkinsville – Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services and sales	\$ 2,072,960	\$ 2,051,890	\$ 230,421	\$ 252,615	\$ 2,303,381	\$ 2,304,505
Operating grants/contributions/interest	5,268,211	5,603,305	-	-	5,268,211	5,603,305
Capital grants/contributions	942,871	1,321,456	-	-	942,871	1,321,456
General revenues:						
Property taxes	4,898,273	5,039,471	-	-	4,898,273	5,039,471
Occupational taxes	14,277,464	13,337,584	-	-	14,277,464	13,337,584
Insurance premium tax	3,690,880	3,789,988	-	-	3,690,880	3,789,988
Franchise tax	335,450	293,561	-	-	335,450	293,561
Transient room tax	373,457	326,374	-	-	373,457	326,374
Investment income	37,183	6,016	181	486	37,364	6,502
Gain on sale of capital assets	-	-	-	-	-	-
Other	44,330	18,037	-	-	44,330	18,307
Total revenues	\$ 31,941,079	\$ 31,787,682	\$ 230,602	\$ 253,101	\$ 32,171,681	\$ 32,040,783

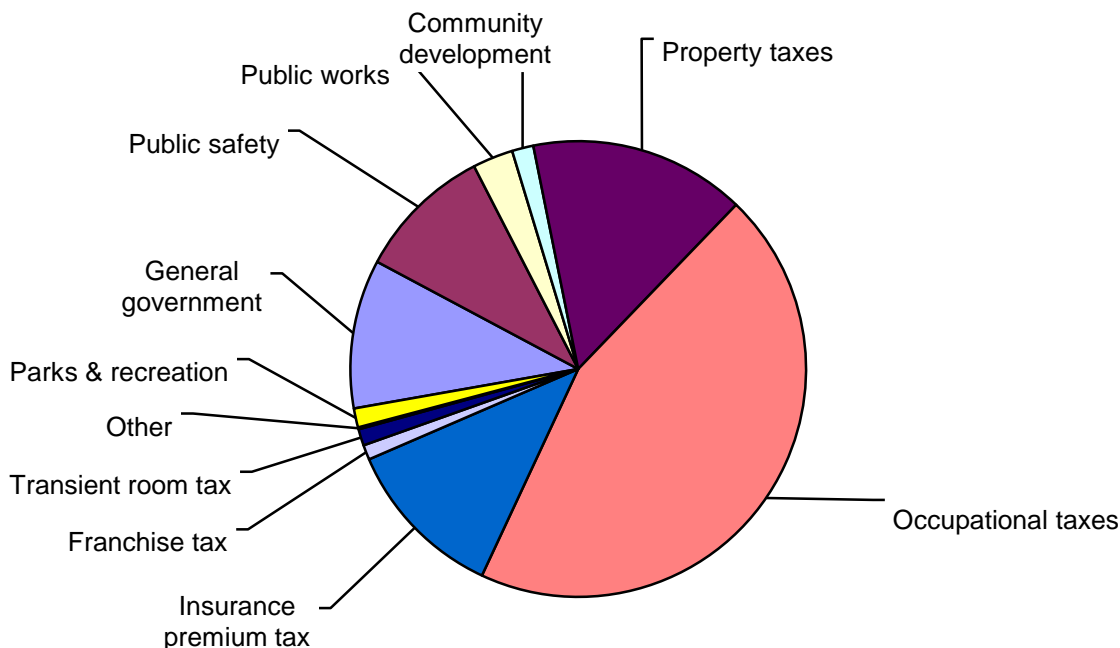
City of Hopkinsville – Changes in Net Position, continued

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Expenses:						
General government	\$ 3,872,583	\$ 3,344,160	\$ -	\$ -	\$ 3,872,583	\$ 3,344,160
Public safety	18,055,200	16,265,313	-	-	18,055,200	16,265,313
Public works	4,239,474	3,212,172	-	-	4,239,474	3,212,172
Community development	4,696,599	4,923,968	-	-	4,696,599	4,923,968
Parks and recreation	609,433	537,067	-	-	609,433	537,067
Interest on long-term debt	335,925	130,026	-	-	335,925	130,026
Tie Breaker Family Aquatic	-	-	550,112	516,688	550,112	516,688
Total expenses	<u>\$ 31,809,214</u>	<u>\$ 28,412,706</u>	<u>\$ 550,112</u>	<u>\$ 516,688</u>	<u>\$ 32,359,326</u>	<u>\$ 28,929,394</u>
Change in net position before Transfers	\$ 131,865	\$ 3,374,976	\$ (319,510)	\$ (263,587)	\$ (187,645)	\$ 3,111,389
Transfers	(125,000)	192,153	125,000	(192,153)	-	-
Increase (decrease) in net position	6,865	3,567,129	(194,510)	(455,740)	(187,645)	3,111,389
Net position, beginning, as restated	27,684,399	24,331,420	3,424,719	3,880,459	31,109,118	28,211,879
Net position, ending	<u>\$ 27,691,264</u>	<u>\$ 27,898,549</u>	<u>\$ 3,230,209</u>	<u>\$ 3,424,719</u>	<u>\$ 30,921,473</u>	<u>\$ 31,323,268</u>

B. Governmental Activities

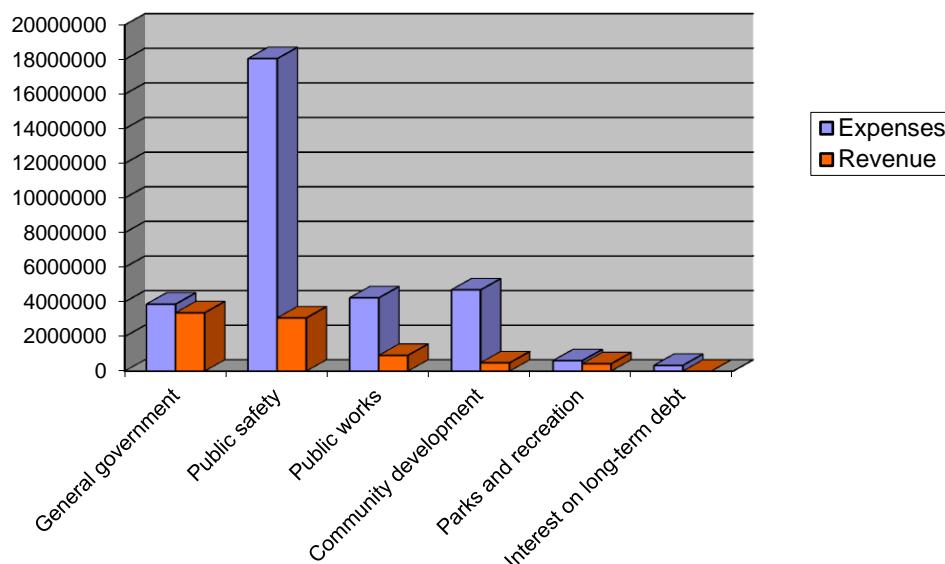
Total revenues for the City's governmental activities total \$31.9 million at June 30, 2014, compared to \$31.8 million last year. Occupational taxes total \$14.3 million or 44.7% of revenue. The second largest category of government revenues, operating grants/contributions/interest, accounts for \$5.3 million, or 16.5% of total revenues. The third largest category of government revenues, property taxes, accounts for \$4.9 million, or 15.3% of revenue. Insurance premium tax totals \$3.7 million, or 11.6% of the total collections. Miscellaneous sources account for \$44 thousand, or 0.01%.

Revenue by Source – Governmental Activities



Current year total expenses of the City's governmental activities total \$31.8 million, compared to \$28.4 million last year. The increase is 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. Public Safety expenses total \$18.1 million and account for 56.8% of total expenses. The second largest category of expenses, Community Development, totals \$4.7 million and accounts for 14.8% of expenses. Public Works is the next largest category and totals \$4.2 million, or 13.3% of expenses. General government totals \$3.9 million, or 12.2% of expenses.

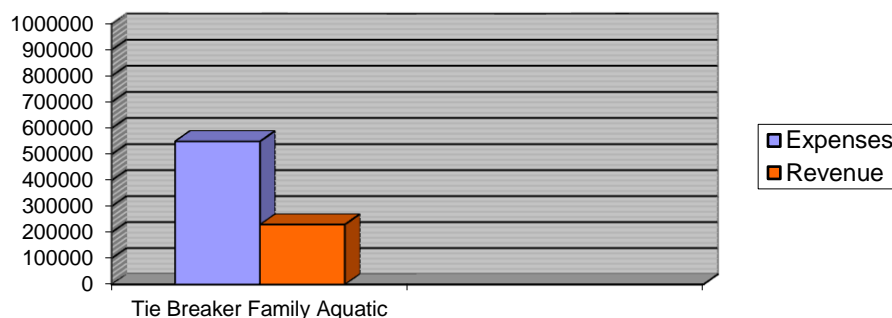
Expenses and Program Revenues – Governmental Activities



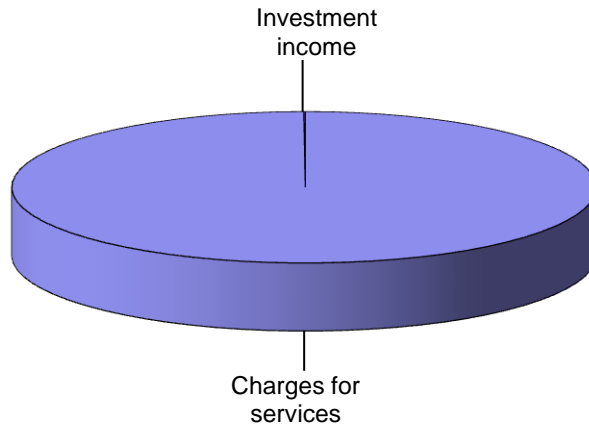
C. Business-Type Activities

Revenue for business-type activities total \$230 thousand this fiscal year compared to \$253 thousand last year. Of this, \$230 thousand or 99.9% was from charges for services and sales. Expenses for business-type activities total \$550 thousand. The only program in the business-type activities was the operations of the Tie Breaker Family Aquatic Park, which accounts for 100% of business-type expenses.

Expenses and Revenues – Business-Type Activities



Revenue by Source – Business-Type Activities

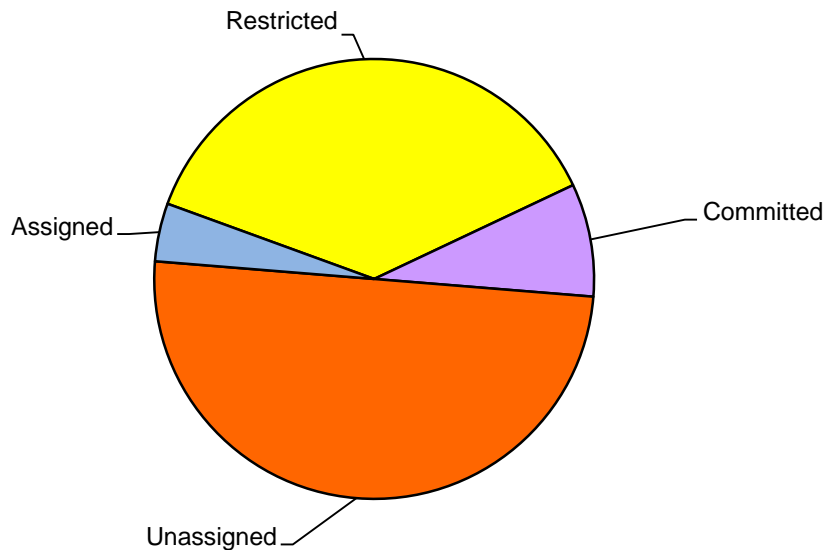


D. Governmental Funds

At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$17.63 million, a decrease of \$1.53 million from the prior year. Approximately 48.6% of this total amount, \$8.57 million, is unassigned fund balance, which is available for spending at the government's discretion. Approximately 40.9%, \$7.21 million, is restricted fund balance. Approximately 2.4%, \$431 thousand, has been encumbered or is assigned. The remainder of fund balance, \$1.42 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 \$1.53 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 2013-14 fiscal year, the total fund balance in the General Fund was \$10.2 million, which represents an increase of \$993 thousand over the prior year. Of this total, unassigned fund balance was \$8.6 million and reflected by 29.1% 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 31.6% of total general fund expenditures of \$27.1 million, and total fund balance represents 37.6% 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 \$3.23 million as of June 30, 2014, compared to \$3.42 million last year.

The Water Park has total net position of \$3.23 million, representing a decrease of \$195 thousand from prior year. Of the total net assets, \$3.22 million was net investment in capital assets and \$0.01 million was unrestricted. This decrease is primarily the results of events and programs described within the analysis of the City's business-type activities.

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 decreased \$75,174 or 0.3% during the year. The changes in appropriations can be briefly summarized as follows:

- \$ 186,647 increase in general administrative
- \$ 63,082 increase in tax department
- \$ 51,544 decrease in information technology
- \$ 4,918 increase in legislative
- \$ 74,624 increase in police
- \$ 49,886 increase in emergency communications
- \$ 37,739 increase in fire
- \$ - no change in other public safety
- \$ 4,271 increase in public works administrative
- \$ 287,630 decrease in street
- \$ 11,922 increase in service center
- \$ 37,183 increase in other public works
- \$ 538,258 decrease in community development
- \$ 53,797 increase in parks and recreation
- \$ - no change in debt service principal
- \$ - no change in interest and finance charges
- \$ 278,189 increase in capital outlays

The net decrease to appropriations of \$75,174 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 \$880,863 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, lower retirement rates, 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 \$35.3 million (net of accumulated depreciation) as of June 30, 2014, which represents an increase of \$6.13 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 \$32.1 million, an increase of \$6.2 million. For business-type activities, investments totaled \$3.2 million, a decrease of \$117 thousand.

City of Hopkinsville – Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,881,400	\$ 1,875,780	\$ -	\$ -	\$ 1,881,400	\$ 1,875,780
Construction in Progress	9,625,173	3,882,164	-	-	9,625,173	3,882,164
Land improvements	3,786,858	3,567,764	-	-	3,786,858	3,567,764
Buildings	4,667,194	4,506,230	3,103,704	3,199,881	7,770,898	7,706,111
Machinery and equipment	4,012,648	4,227,678	111,942	132,879	4,124,590	4,360,557
Infrastructure	<u>8,126,044</u>	<u>7,797,287</u>	<u>-</u>	<u>-</u>	<u>8,126,044</u>	<u>7,797,287</u>
Total	<u>\$32,099,317</u>	<u>\$25,856,903</u>	<u>\$3,215,646</u>	<u>\$ 3,332,760</u>	<u>\$35,314,963</u>	<u>\$29,189,663</u>

Additional information on City capital assets can be found in Note 4 in the footnotes at pages 49-52.

B. Long-Term Debt

At year-end the City had \$29.49 million in outstanding notes and bonds compared to \$21.90 million at June 30, 2013, an increase of \$7.58 million. The City issued new debt of \$3,965,000 during the year. General obligation bonds were issued for the construction of a new city administration building and renovation of the current city administration building to become the police department. The City, on behalf of one component unit, had total new debt of \$3,520,000 issued during this fiscal year. The new debt is to be used to fund the construction of a 2MG water tank and water mains along Eagle Way Bypass and US-41A. The City, on behalf of another component unit, issued new debt of \$1,331,778. New debt in the amount of \$400,000 was issued for the acquisition, construction, installation, and equipping of a solid waste enterprise administration building. Two separate capital leases for two roll-off trucks and four trucks were issued in the amount of \$931,778. The City, on behalf of another component unit, issued new debt of \$4,635,000. General obligation bonds were issued to refinance the 2009 KLC bond that was used for the acquisition, construction, and installation of surface and storm water projects within the City. The following table illustrates the changes in outstanding notes, bonds and capital leases:

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
General Obligation bonds	\$ 26,498,140	\$ 19,368,599
Capital leases	1,293,457	731,749
Note payable	<u>1,695,763</u>	<u>1,804,200</u>
Total	<u>\$ 29,487,360</u>	<u>\$ 21,904,548</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 \$176,872,313. 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 57-64.

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 2014 was 10.0%. This rate compares unfavorably to state and federal unemployment rates, 7.4% and 6.1%, 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 2013-2014 budget for the City of Hopkinsville was prepared. The beginning general fund balance for fiscal year 2013-2014 was \$9,204,885, and has estimated an ending fund balance of \$9,861,549. 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 715 South Virginia 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, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Pooled cash and cash equivalents	\$ 7,813,752	\$ -	\$ 7,813,752	\$ -
Non-pooled cash and cash equivalents	669,956	95,035	764,991	8,908,327
Investments	3,500,000	-	3,500,000	-
Accounts receivable	-	-	-	2,036,498
Taxes receivable	2,333,429	-	2,333,429	-
Intergovernmental receivables	94,907	-	94,907	-
Other receivables	235,018	-	235,018	401,636
Internal balances	-	-	-	-
Due from component unit	16,152	-	16,152	-
Inventory	-	-	-	246,391
Prepaid insurance	-	-	-	37,682
Accrued interest on note receivable	-	-	-	605
Restricted assets:				
Due from Component Units				
Due within one year	802,941	-	802,941	-
Due beyond one year	10,400,657	-	10,400,657	-
Temporarily restricted:				
Cash and cash equivalents	5,371,474	-	5,371,474	6,120,716
Investments	375,814	-	375,814	2,741,195
Permanently restricted assets:				
Cash and cash equivalents	75,049	-	75,049	-
Investments	337,990	-	337,990	-
Capital Assets				
Land and construction in progress	11,506,573	-	11,506,573	9,429,193
Capital assets, net of accumulated depreciation	20,592,744	3,215,646	23,808,390	104,337,625
Total capital assets	32,099,317	3,215,646	35,314,963	113,766,818
DEFERRED OUTFLOWS OF RESOURCES				
Deferred refunding costs	57,614	-	57,614	20,490
Total assets and deferred outflows of resources	<u>\$ 64,184,070</u>	<u>\$ 3,310,681</u>	<u>\$ 67,494,751</u>	<u>\$ 134,280,358</u>
LIABILITIES				
Accrued salaries	\$ 802,319	\$ -	\$ 802,319	\$ -
Accounts payable	1,550,448	80,472	1,630,920	898,452
Accounts payable - restricted	-	-	-	129,752
Claims payable	131,958	-	131,958	-
Accrued interest	129,198	-	129,198	328,845
Transient bond deposits	1,500	-	1,500	-
Construction retainage payable	-	-	-	78,005
Construction contracts payable	-	-	-	67,691
Customer deposits	-	-	-	78,824
Due to primary government:				
Due within one year				802,941
Due beyond one year				10,400,657
Noncurrent liabilities:				
Due within one year	1,317,016	-	1,317,016	3,745,355
Due beyond one year	30,130,300	-	30,130,300	64,647,921
Compensated absences:				
Due within one year	27,639	-	27,639	440,604
Due beyond one year	2,402,428	-	2,402,428	410,893
Total liabilities	<u>36,492,806</u>	<u>80,472</u>	<u>36,573,278</u>	<u>82,029,940</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred grant revenue	-	-	-	86,583
NET POSITION				
Net investment in capital assets	22,565,797	3,215,646	25,781,443	43,236,451
Restricted for:				
Capital projects	4,660,523	-	4,660,523	1,376,718
Perpetual care:				
Expendable	467,972	-	467,972	-
Nonexpendable	407,694	-	407,694	-
Unrestricted	(410,722)	14,563	(396,159)	7,550,666
Total net position	<u>27,691,264</u>	<u>3,230,209</u>	<u>30,921,473</u>	<u>52,163,835</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 64,184,070</u>	<u>\$ 3,310,681</u>	<u>\$ 67,494,751</u>	<u>\$ 134,280,358</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, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
PRIMARY GOVERNMENT								
Governmental activities:								
General government	\$ (3,872,583)	\$ 1,837,549	\$ 1,533,172	\$ 3,602	\$ (498,260)	\$ -	\$ (498,260)	\$ -
Public safety	(18,055,200)	44,341	2,663,020	370,974	(14,976,865)	-	(14,976,865)	-
Public works	(4,239,474)	-	771,048	145,409	(3,323,017)	-	(3,323,017)	-
Community development	(4,696,599)	-	125,608	358,886	(4,212,105)	-	(4,212,105)	-
Parks and recreation	(609,433)	191,070	175,363	64,000	(179,000)	-	(179,000)	-
Interest on long-term debt	(335,925)	-	-	-	(335,925)	-	(335,925)	-
Total governmental activities	<u>(31,809,214)</u>	<u>2,072,960</u>	<u>5,268,211</u>	<u>942,871</u>	<u>(23,525,172)</u>	<u>-</u>	<u>(23,525,172)</u>	<u>-</u>
Business-type activities:								
Tie Breaker Family Aquatic	(550,112)	230,421	-	-	-	(319,691)	(319,691)	-
Grounds Maintenance	-	-	-	-	-	-	-	-
Total business-type activities	<u>(550,112)</u>	<u>230,421</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(319,691)</u>	<u>(319,691)</u>	<u>-</u>
Total - primary government	<u>\$ (32,359,326)</u>	<u>\$ 2,303,381</u>	<u>\$ 5,268,211</u>	<u>\$ 942,871</u>	<u>(23,525,172)</u>	<u>(319,691)</u>	<u>(23,844,863)</u>	<u>-</u>
COMPONENT UNITS								
Hopkinsville Water Environment Authority	(13,071,562)	13,881,497	-	141,650	-	-	-	951,585
Hopkinsville Solid Waste Enterprise	(5,943,613)	6,506,122	-	-	-	-	-	562,509
Hopkinsville Surface and Stormwater	(1,586,286)	1,153,239	787,693	90,705	-	-	-	445,351
Total - component units	<u>(20,601,461)</u>	<u>21,540,858</u>	<u>787,693</u>	<u>232,355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,959,445</u>
GENERAL REVENUES								
Property taxes					4,898,273	-	4,898,273	-
Occupational taxes					14,277,464	-	14,277,464	-
Insurance premium tax					3,690,880	-	3,690,880	-
Franchise tax					335,450	-	335,450	-
Transient room tax					373,457	-	373,457	-
Investment income					37,183	181	37,364	107,216
Gain (loss) on sale of capital assets					-	-	-	60,436
Other					44,330	-	44,330	412,573
Total general revenues					<u>23,657,037</u>	<u>181</u>	<u>23,657,218</u>	<u>580,225</u>
Transfers					(125,000)	125,000	-	-
Total general revenues, transfers, & special items					<u>23,532,037</u>	<u>125,181</u>	<u>23,657,218</u>	<u>580,225</u>
Change in net position					6,865	(194,510)	(187,645)	2,539,670
Net position, beginning of year, as restated					<u>27,684,399</u>	<u>3,424,719</u>	<u>31,109,118</u>	<u>49,624,165</u>
Net position, end of year					<u>\$ 27,691,264</u>	<u>\$ 3,230,209</u>	<u>\$ 30,921,473</u>	<u>\$ 52,163,835</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, 2014

	Major Fund		Other Governmental Funds	Total Governmental Funds
	General	City Hall/PD Construction		
ASSETS				
Pooled cash and cash equivalents	\$ 9,075,044	\$ 4,522,646	\$ 2,377,260	\$ 15,974,950
Non-pooled cash and cash equivalents	53,901	-	923,877	977,778
Investments	-	-	713,805	713,805
Taxes receivable	1,968,127	-	-	1,968,127
Interest receivable	-	-	-	-
Interfund receivable	-	-	-	-
Intergovernmental receivables	67,171	-	-	67,171
Loans receivable	-	-	223,318	223,318
Due from component unit	-	-	-	-
Other receivables	-	-	55,587	55,587
Total assets	<u>\$ 11,164,243</u>	<u>\$ 4,522,646</u>	<u>\$ 4,293,847</u>	<u>\$ 19,980,736</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 162,200	\$ 733,405	\$ 654,843	\$ 1,550,448
Accrued salaries	802,319	-	-	802,319
Interfund payables	-	-	-	-
Bond issue cost payable	-	-	-	-
Transient bond deposits	1,500	-	-	1,500
Total liabilities	<u>966,019</u>	<u>733,405</u>	<u>654,843</u>	<u>2,354,267</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	3,789,241	3,418,482	7,207,723
Committed	1,209,235	-	212,987	1,422,222
Assigned	423,562	-	7,535	431,097
Unassigned	8,565,427	-	-	8,565,427
Total fund balances	<u>10,198,224</u>	<u>3,789,241</u>	<u>3,639,004</u>	<u>17,626,469</u>
Total liabilities and fund balances	<u>\$ 11,164,243</u>	<u>\$ 4,522,646</u>	<u>\$ 4,293,847</u>	<u>\$ 19,980,736</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, 2014

Total fund balance - total governmental funds	\$ 17,626,469
Amounts reported for governmental activities in the statement of net position are different because:	
Taxes receivable based on availability criteria; \$33,950 property taxes, \$254,223 insurance premium taxes, and \$77,129 franchise taxes.	365,302
Deferred outflows of resources - bond refinancing charges, amortizable over life of debt	57,614
Capital assets of \$58,083,343, net of accumulated depreciation of (\$25,984,026), are not financial resources and, therefore, are not reported in the funds. See note 4 for additional detail.	32,099,317
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 \$345,546 are included in governmental activities in the statement of net position	345,546
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.	(33,646,959)
Receivables from component units for long-term debt where the City is contingently liable and are not reported in the funds.	11,203,598
Accrued interest	<u>(129,198)</u>
Net position of governmental activities	27,921,689
Restatement of fund balance due to GASB 65	<u>(230,425)</u>
Net position of governmental activities, restated	<u>\$ 27,691,264</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, 2014

	Major Fund		Other Governmental Funds	Total Governmental Funds
	General	City Hall/PD Construction		
REVENUES				
Taxes	\$ 4,897,896	\$ -	\$ -	\$ 4,897,896
Licenses and permits	20,660,296	-	-	20,660,296
Fines and forfeits	44,341	-	-	44,341
Intergovernmental	1,786,859	-	2,305,056	4,091,915
Investment income	21,525	1,297	34,219	57,041
Donations	-	-	117,044	117,044
Charges for services	-	-	-	-
Other	2,026,171	-	295,698	2,321,869
Total revenues	<u>29,437,088</u>	<u>1,297</u>	<u>2,752,017</u>	<u>32,190,402</u>
EXPENDITURES				
Current:				
General government	2,989,065	516,700	13,031	3,518,796
Public safety	15,374,459	-	751,014	16,125,473
Public works	2,821,355	-	506,387	3,327,742
Community development	4,110,942	-	1,206,956	5,317,898
Parks and recreation	479,484	-	-	479,484
Debt service:				
Principal	666,945	-	108,437	775,382
Interest	393,442	-	30,583	424,025
Expenditures	-	108,047	-	108,047
Capital outlays	278,189	3,810,143	3,436,677	7,525,009
Total expenditures	<u>27,113,881</u>	<u>4,434,890</u>	<u>6,053,085</u>	<u>37,601,856</u>
Excess of revenues over (under) expenditures	<u>2,323,207</u>	<u>(4,433,593)</u>	<u>(3,301,068)</u>	<u>(5,411,454)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	303,241	15,757	1,661,559	1,980,557
Transfers to other funds	(1,633,109)	-	(472,448)	(2,105,557)
Proceeds of refunding debt	-	-	-	-
Premium on bond issue	-	38,104	-	38,104
Refunding debt redeemed	-	-	-	-
Issuance of debt	-	3,965,000	-	3,965,000
Sale of capital assets	-	-	-	-
Total other financing sources (uses)	<u>(1,329,868)</u>	<u>4,018,861</u>	<u>1,189,111</u>	<u>3,878,104</u>
Net change in fund balances	993,339	(414,732)	(2,111,957)	(1,533,350)
Fund balances, beginning of year	<u>9,204,885</u>	<u>4,203,973</u>	<u>5,750,961</u>	<u>19,159,819</u>
Fund balances, end of year	<u>\$ 10,198,224</u>	<u>\$ 3,789,241</u>	<u>\$ 3,639,004</u>	<u>\$ 17,626,469</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, 2014

Net change in fund balances - total governmental funds	\$ (1,533,350)
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 \$2,689,206 exceeded depreciation of (\$2,189,168) in the current period.	500,038
Governmental funds report construction in progress as expenditures. However, in the statement of activities, the cost of those assets is allocated to capital assets.	5,792,255
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.	(1,297)
Issuance of debt is revenue in the governmental funds, but the debt increases long-term liabilities in the statement of net assets.	(3,965,000)
Debt premiums are expenditures in the governmental fund, but are deferred charges in the statement of net assets.	(38,104)
Certain imposed nonexchange revenues were not recognized in the governmental funds because they were not available at June 30, 2014. The change in this account balance is a reconciling item for this statement.	(148,848)
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 \$108,903 is reported with governmental activities.	(108,903)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	775,382
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 \$22,912 with an overall gain of \$20,561 less \$1,718 for commission expense for 2014.	(633)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. These include the increase in compensated absences of (\$1,197,806), increase in accrued interest of (\$46,490), increase in pension obligation (\$32,195), amortization of deferred charges of (\$2,799), and amortization of debt premium of \$14,615.	<u>(1,264,675)</u>
Change in net position of governmental activities	<u>\$ 6,865</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, 2014

	Business-type Activities Enterprise Funds	
	Major Fund	Governmental Activities- Internal Service Funds
	Tie Breaker Family Aquatic	Funds
ASSETS		
Current assets:		
Pooled cash and cash equivalents	\$ -	\$ -
Non-pooled cash and cash equivalents	95,035	477,504
Accounts receivable	-	-
Total current assets	95,035	477,504
Noncurrent assets:		
Capital assets:		
Land and construction in progress	-	-
Capital assets, net of accumulated depreciation	3,215,646	-
Total noncurrent assets	3,215,646	-
Total assets	\$ 3,310,681	\$ 477,504
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 80,472	\$ -
Accrued salaries	-	-
Incurred, not yet reported	-	131,958
Accrued landfill closing costs	-	-
Compensated absences	-	-
Total current liabilities	80,472	131,958
Noncurrent liabilities:		
Accrued landfill closing costs	-	-
Compensated absences	-	-
Total noncurrent liabilities	-	-
Total liabilities	80,472	131,958
NET POSITION		
Net investment in capital assets	3,215,646	-
Unrestricted	14,563	345,546
Total net position	3,230,209	345,546
Total liabilities and net position	\$ 3,310,681	\$ 477,504

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, 2014

	Business-type Activities <u>Enterprise Funds</u>	
	<u>Major Fund</u>	Governmental Activities-
	Tie Breaker Family Aquatic	Internal Service Funds
OPERATING REVENUES		
Charges for services	\$ 230,421	\$ -
Employee contributions	-	448,667
Employer contributions	-	1,556,727
Insurance reimbursement	-	-
Other income	-	-
Total operating revenues	<u>230,421</u>	<u>2,005,394</u>
OPERATING EXPENSES		
Salaries, wages and benefits	-	-
Lease expense	-	-
Management contract	219,925	-
Maintenance	30,631	-
Marketing	77,847	-
Operations	16,287	-
Utilities	66,332	-
Administrative	-	394,390
Supplies	11,761	-
Depreciation	127,329	-
Claims expense	-	1,720,187
Total operating expenses	<u>550,112</u>	<u>2,114,577</u>
Operating income (loss)	<u>(319,691)</u>	<u>(109,183)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	181	280
Transfer of net assets to general fund	-	-
Gain on sale of equipment	-	-
Total nonoperating revenues (expenses)	181	280
Income (loss) before transfers	<u>(319,510)</u>	<u>(108,903)</u>
Transfers in	125,000	-
Transfers out	-	-
Capital contributions	-	-
Transfer of net liabilities to component unit	-	-
Total transfers and capital contributions	<u>125,000</u>	<u>-</u>
Change in net position	(194,510)	(108,903)
Net position, beginning of year	<u>3,424,719</u>	<u>454,449</u>
Net position, end of year	<u>\$ 3,230,209</u>	<u>\$ 345,546</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, 2014

	Business-type Activities <u>Enterprise Funds</u>	Governmental Activities- Internal Service <u>Funds</u>
	Tie Breaker Family Aquatic	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 230,421	\$ 2,005,394
Other cash receipts	-	-
Cash payments to employees for services	-	-
Cash payments to suppliers	(349,033)	(408,570)
Cash payments for claims	<u>-</u>	<u>(1,614,984)</u>
Net cash provided by (used in) operating activities	<u>(118,612)</u>	<u>(18,160)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	125,000	-
Transfers out	<u>-</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>125,000</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	-	-
Payments for capital acquisitions	<u>(10,214)</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(10,214)</u>	<u>-</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Interest on investments	<u>181</u>	<u>280</u>
Net cash provided by (used in) investment activities	<u>181</u>	<u>280</u>
Net increase (decrease) in cash and cash equivalents	(3,645)	(17,880)
Cash and cash equivalents, beginning of year	<u>98,680</u>	<u>495,384</u>
Cash and cash equivalents, end of year	<u>\$ 95,035</u>	<u>\$ 477,504</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (319,691)	\$ (109,183)
Adjustments:		
Depreciation	127,329	-
(Increase) decrease in assets:		
Accounts receivable	-	-
Increase (decrease) in liabilities:		
Accounts payable	73,750	-
Accrued liabilities	<u>-</u>	<u>91,023</u>
Net cash provided by (used in) operating activities	<u>\$ (118,612)</u>	<u>\$ (18,160)</u>
NONCASH CAPITAL ACTIVITIES		
Transfer asset and liabilities to general fund	<u>\$ -</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, 2014**

	<u>Pension Trust Funds</u>
ASSETS	
Cash	\$ 58
Accrued interest receivable	-
Money market	210,585
Corporate bond funds	<u>596,762</u>
 Total assets	 <u>\$ 807,405</u>
LIABILITIES	
Administration fees payable	<u>\$ -</u>
 Total liabilities	 <u>-</u>
NET POSITION	
Held in trust for pension benefits	<u>807,405</u>
 Total liabilities and net position	 <u>\$ 807,405</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, 2014**

	<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	(1,081)
Interest	9,608
Miscellaneous receipts	<u>-</u>
Total investment earnings	8,527
Less investment expense	<u>6,371</u>
Net investment earnings	<u>2,156</u>
Total additions	<u>402,156</u>
DEDUCTIONS	
Benefits	<u>400,558</u>
Change in net position	1,598
Net position, beginning of year	<u>805,807</u>
Net position, end of year	<u>\$ 807,405</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, 2014

	Major			Total
	Hopkinsville Water Environment Authority	Hopkinsville Solid Waste Enterprise	Hopkinsville Surface and Storm Water Utility	
ASSETS				
Cash and cash equivalents	\$ 5,589,610	\$ 1,139,568	\$ 2,179,149	\$ 8,908,327
Receivables	1,079,615	563,928	392,955	2,036,498
Inventory	246,391	-	-	246,391
Prepaid insurance	37,682	-	-	37,682
Accrued interest on note receivable	605	-	-	605
Restricted assets:				
Cash and cash equivalents	4,725,700	576,914	818,102	6,120,716
Investments	230,306	2,510,889	-	2,741,195
Notes receivable	394,229	-	-	394,229
Other receivables	7,407	-	-	7,407
Capital assets, net of depreciation:				
Land and construction in progress	7,354,197	1,410,693	664,303	9,429,193
Depreciable capital assets	<u>95,909,810</u>	<u>4,159,262</u>	<u>4,268,553</u>	<u>104,337,625</u>
Net capital assets	103,264,007	5,569,955	4,932,856	113,766,818
DEFERRED OUTFLOWS OF RESOURCES				
Deferred refunding costs	<u>20,490</u>	<u>-</u>	<u>-</u>	<u>20,490</u>
Total assets and deferred outflows of resources	<u>\$ 115,596,042</u>	<u>\$ 10,361,254</u>	<u>\$ 8,323,062</u>	<u>\$ 134,280,358</u>
LIABILITIES				
Current portion of long-term debt	\$ 3,745,355	\$ -	\$ -	\$ 3,745,355
Payable to City of Hopkinsville, current portion	130,000	597,941	75,000	802,941
Customer deposits	78,824	-	-	78,824
Accrued interest	276,612	-	52,233	328,845
Accounts payable	523,619	304,195	70,638	898,452
Accounts payable - restricted	1,300	128,452	-	129,752
Accrued salaries and compensated absences	297,943	142,661	-	440,604
Construction retainage payable	78,005	-	-	78,005
Construction contracts payable	67,691	-	-	67,691
Long-term liabilities:				
Compensated absences	204,198	206,695	-	410,893
Revenue bonds payable (net of current portion)	20,296,424	-	-	20,296,424
KIA - loans payable (net of current portion)	37,260,225	-	-	37,260,225
Payable to City of Hopkinsville (net of current portion)	3,479,999	2,430,622	4,490,036	10,400,657
Accrued landfill closure costs	-	5,554,272	-	5,554,272
KY Rural Finance loans payable (net of current portion)	<u>1,537,000</u>	<u>-</u>	<u>-</u>	<u>1,537,000</u>
Total liabilities	<u>67,977,195</u>	<u>9,364,838</u>	<u>4,687,907</u>	<u>82,029,940</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred grant revenue	<u>-</u>	<u>-</u>	<u>86,583</u>	<u>86,583</u>
NET POSITION				
Net investment in capital assets	39,949,129	2,541,392	745,930	43,236,451
Restricted	1,376,718	-	-	1,376,718
Unrestricted	<u>6,293,000</u>	<u>(1,544,976)</u>	<u>2,802,642</u>	<u>7,550,666</u>
Total net position	<u>47,618,847</u>	<u>996,416</u>	<u>3,548,572</u>	<u>52,163,835</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 115,596,042</u>	<u>\$ 10,361,254</u>	<u>\$ 8,323,062</u>	<u>\$ 134,280,358</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, 2014**

	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	\$ (13,071,562)	\$ 13,881,497	\$ -	\$ 141,650	\$ 951,585	\$ -	\$ -	\$ 951,585
Hopkinsville Solid Waste Enterprise	(5,943,613)	6,506,122	-	-	-	562,509	-	562,509
Hopkinsville Surface and Stormwater Utility	<u>(1,586,286)</u>	<u>1,153,239</u>	<u>787,693</u>	<u>90,705</u>	<u>-</u>	<u>-</u>	<u>445,351</u>	<u>445,351</u>
Total expenses	<u>\$ (20,601,461)</u>	<u>21,540,858</u>	<u>787,693</u>	<u>232,355</u>	<u>951,585</u>	<u>562,509</u>	<u>445,351</u>	<u>1,959,445</u>
GENERAL REVENUES:								
					74,860	13,887	18,469	107,216
					8,260	52,176	-	60,436
					<u>235,252</u>	<u>177,321</u>	<u>-</u>	<u>412,573</u>
					<u>318,372</u>	<u>243,384</u>	<u>18,469</u>	<u>580,225</u>
					1,269,957	805,893	463,820	2,539,670
					<u>46,348,890</u>	<u>190,523</u>	<u>3,084,752</u>	<u>49,624,165</u>
					<u>\$ 47,618,847</u>	<u>\$ 996,416</u>	<u>\$ 3,548,572</u>	<u>\$ 52,163,835</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
715 South Virginia 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	\$ 38,000
Community and Development Services	462,732
Library Board	232,000
Emergency Communications Center	638,713

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:

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.

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.

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

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

1. Summary of Significant Accounting Policies, continued

C. Fund Accounting, continued

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.

**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.

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

1. Summary of Significant Accounting Policies, continued

E. Basis of Accounting, continued

Revenues – Exchange and Non-Exchange Transactions, continued

Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, franchise taxes, occupational licenses, grants, entitlements and donations. The City considers property taxes as available if they are collected within sixty days after year-end. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The following is a list of primary revenue sources which have been treated as susceptible to accrual under the modified accrual basis, and which have not:

<u>Susceptible</u>	<u>Not Susceptible</u>
Taxes Intergovernmental	Licenses and permits

Deferred Revenue

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

Expenses/Expenditures

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

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

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

1. Summary of Significant Accounting Policies, continued

F. Deposits and Investments

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

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

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

As security for deposits of the City, banks doing business with the City are required to pledge securities in an amount to exceed uninsured funds on deposit by the City. In addition, the City is insured under FDIC up to \$250,000 at each bank.

For presentation on the financial statements, investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

G. Receivables

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

H. Inventory

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

I. Prepaid Items

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

J. Restricted Assets

Restricted assets for the City consist of cash and investments Hopkinsville Solid Waste Enterprise placed in accounts in order to comply with state laws for funding landfill closure and postclosure costs and other projects.

**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 HWEA, 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, 2014.

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. Long-Term Debt

The City follows GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," bond issuance costs are expensed as incurred (see Note 1W for additional information). Bond discounts and premiums are netted against the corresponding liability on the statement of net position. Discounts and premiums are amortized over the term of the bonds using the straight-line method, which approximates the effective interest rate.

The City issued new bonds during the year for the construction of a new city administration building and renovation of the current city administration building to become the police department. The City issued new bonds on behalf of component unit, HWEA, during the year for the construction of a 2MG water tank and water mains along Eagle Way Bypass and US-41A. The City issued new bonds on behalf of component unit, Solid Waste, during the year for the acquisition, construction, installation, and equipping of a solid waste enterprise administration building. The City issued general obligation refunding bonds on behalf of component unit, Storm Water, during the year for refinancing the 2009 KLC bond which was for the acquisition, construction, and installation of surface and storm water projects within the City. GASBS No. 23 requires that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

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.
- 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 constrained by the City's intent to be used for specific purposes (such as encumbrances), but are neither restricted nor committed. Intent is expressed by the City Council or by any other official or body to which the City Council has delegated the authority to assign amounts to be used for a specific purpose.
- 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.

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

1. Summary of Significant Accounting Policies, continued

Q. Fund Balance, continued

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.

An unrestricted net position deficit of \$1,544,976 exists for Solid Waste. The deficit is caused primarily due to the accrual of landfill closure costs that are expected to be funded in future years. The Solid Waste expects results from future operations to fund such costs.

S. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

T. Estimates

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

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

V. Budgetary Information

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

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

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

W. Restatement

Balances at June 30, 2013 relating to assets and liabilities have been restated to reflect changes in accounting principles adopted by the Governmental Accounting Standards Board (GASB).

The City implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", which provided guidance to change the treatment of certain assets and liabilities; specific assets and liabilities are now expensed or earned. Specifically, the new statement provided guidance that only bond insurance costs should be capitalized and reported as an asset on the Statement of Net Position; all other bond issuance costs should be expensed when incurred and reported on the Statement of Revenues, Expenses and Changes in Net Position. Consequently, the City now expenses bond issuance costs rather than amortizing them over the life of the bond issue.

For the City, implementation of GASB Statement No. 65 decreased total assets and net position by \$230,425.

Due to the implementation of GASB Statement No. 65, HWEA decreased total assets and net position by \$300,112.

Due to the implementation of GASB Statement No. 65, Solid Waste decreased total assets and net position by \$56,171.

Continued

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

1. Summary of Significant Accounting Policies, continued

W. Restatement, continued

Due to the implementation of GASB Statement No. 65, Storm Water decreased total assets and net position by \$84,167.

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 \$13,374,992 and the bank balance was \$13,979,850. Of the cash balance, \$500,000 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, 2014, the City did not have any deposited funds exposed to custodial credit risk.

At year-end, the carrying amount of the deposits for HWEA was \$10,313,360 and the bank balance was \$10,310,944. Of this bank balance, Federal Depository Insurance covered \$427,473, with the balance covered by collateral held by the pledging bank. Therefore, as of June 30, 2014, 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 \$1,716,483 and the bank balance was \$1,722,667. Of the bank 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, 2014, 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 \$2,997,251 and the bank balance was \$3,038,398. Of this bank balance, Federal Depository Insurance covered \$250,000, with the balance covered by collateral held by financial institutions' agents in the Storm Water's name. Therefore, as of June 30, 2014, 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, 2014</u>	Average Credit Quality/Rating	Fair Value (Primary Gov't)	Fair Value (Pension Trust Fund)	Average Maturity
Planters Bank CD	N/A	\$ 3,500,000	\$ -	335 Days
Insured Deposit Program MGD1	N/A	477,504	-	N/A
Insured Deposit Program MGDW	N/A	153,258	-	N/A
Planters Bank Trust Money Market	N/A	-	210,644	N/A
American Century GNMA	N/A	-	-	N/A
Federal Farm Credit Banks	N/A	-	49,580	N/A
Federal Home Loan Banks	N/A	-	49,644	7.00 Years
Federal Home Mortgage Assoc	N/A	-	48,817	5.00 Years
AMEX Centurion Sale Lake City UT CD	N/A	-	50,090	4.24 Years
Bankwest CD	N/A	-	49,866	7.24 Years
CIT Bank CD	N/A	-	49,733	3.24 Years
Discover Bank CD	N/A	-	100,275	3.24 Years
Sallie Mae CD	N/A	-	50,032	3.67 Years
Denver CO Public Schools Rev Bond	N/A	-	49,257	2.24 Years
FL Hurricane Catastrophe Fund	N/A	-	50,466	6.00 Years
Nassau Co NY Inter Fin Rev Bond	N/A	-	49,001	7.38 Years
Federated Prime Cash Obligation	N/A	17,944	-	44 Days
Sterling Capital Intermediate US Gov't Fund	AAA	58,985	-	6.34 Years
Sterling Capital Short Term Bond Instl Fund	AAA	4,776	-	2.00 Years
Sterling Capital Total Return Bond Instl Fund	AAA	62,477	-	7.67 Years
Federated Intermediate Corp Bond Fund	BBB	36,256	-	7.10 Years
Sterling Capital Corporate Fund	BBB	5,033	-	7.68 Years
Dodge and Cox Income Fund	AAA	90,527	-	7.10 Years
Hotchkis & Wiley High Yield	B	5,021	-	N/A
PIMCO Real Return Fund	N/A	5,092	-	8.31 Years
Neuberger Berman Strategic Income Fund	AAA	44,251	-	8.00 Years
Doubleline Total Return Bond Fund	A	104,407	-	5.06 Years
Metropolitan West Total Return Bond	A	126,773	-	8.67 Years
Prudential Short Term Corporate Bond Fund	AAA	12,952	-	N/A
Pimco Long Term US G'ment Fund	N/A	<u>51,993</u>	<u>-</u>	22.28 Years
Total Credit Risk Debt Securities		<u>4,757,249</u>	<u>807,405</u>	
US Government Agencies (FNMA)		<u>105,261</u>	<u>-</u>	
Total Debt Securities		<u>\$ 4,862,510</u>	<u>\$ 807,405</u>	

Continued

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

2. Deposits and Investments, continued

B. Investments, continued

The investments for HWEA consisted of the following:

<u>Investments as of June 30, 2014</u>	<u>Average Credit Quality/Rating</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Average Maturity</u>
Planters Bank CD	N/A	\$ 230,306	\$ 230,306	N/A

The investments for Solid Waste consisted of the following:

<u>Investments as of June 30, 2014</u>	<u>Average Credit Quality/Rating</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Average Maturity</u>
Heritage Bank CD	N/A	\$ 2,510,889	\$ 2,510,889	5.76 mo

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, 2014, 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.

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

2. Deposits and Investments, continued

B. Investments, continued

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.

C. Restricted Assets

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

Bond and interest redemption	\$ 1,414,785
Construction	3,515,453
Unemployment	<u>25,768</u>
Total restricted assets	<u>\$ 4,956,006</u>

The bond and interest redemption fund includes \$1,376,717 set aside to meet reserve requirements associated with loans with the Kentucky Infrastructure Authority. The construction fund includes \$3,515,453 of unspent bond proceeds from the 2013B general obligation bonds that were issued by the City on behalf of HWEA.

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

Landfill closure costs	\$ 2,510,889
Projects and expansion costs	561,942
Capital reserve	<u>14,972</u>
Total restricted assets	<u>\$ 3,087,803</u>

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

General obligation bond proceeds	<u>\$ 818,102</u>
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CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

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, 2014, 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.

4. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,875,780	\$ 5,620	\$ -	\$ 1,881,400
Construction in Progress	3,882,164	5,743,009	-	9,625,173
Total Capital Asset Not Being Depreciated	<u>5,757,944</u>	<u>5,748,629</u>	<u>-</u>	<u>11,506,573</u>
Capital Assets Being Depreciated:				
Buildings & Improvements	8,213,173	461,827	-	8,675,000
Equipment	9,229,096	283,550	-	9,512,646
Infrastructure	18,460,625	1,034,445	-	19,495,070
Land Improvements	5,495,903	465,575	-	5,961,478
Vehicles	2,732,066	438,189	237,679	2,932,576
Total Capital Assets Being Depreciated	<u>44,130,863</u>	<u>2,683,586</u>	<u>237,679</u>	<u>46,576,770</u>
Less Accumulated Depreciation:				
Buildings & Improvements	3,706,943	300,863	-	4,007,806
Equipment	5,387,529	609,741	-	5,997,270
Infrastructure	10,663,338	705,688	-	11,369,026
Land Improvements	1,928,139	246,481	-	2,174,620
Vehicles	2,345,955	326,395	237,046	2,435,304
Total Accumulated Depreciation	<u>24,031,904</u>	<u>2,189,168</u>	<u>237,046</u>	<u>25,984,026</u>
Total	<u>\$ 25,856,903</u>	<u>\$ 6,243,047</u>	<u>\$ 633</u>	<u>\$ 32,099,317</u>

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

4. Capital Assets, continued

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

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 216,446
Public Safety	646,657
Public Works	942,790
Community Development	248,559
Parks and Recreation	<u>134,716</u>
 Total Depreciation Expense	 <u>\$2,189,168</u>

A summary of City enterprise funds property, plant and equipment at June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<u>Enterprise Fund Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Capital Assets Being Depreciated:				
Buildings and improvements	3,792,630	-	-	3,792,630
Equipment	334,751	10,214	-	344,965
Vehicles	-	-	-	-
Total Capital Assets Being Depreciated	<u>4,127,381</u>	<u>10,214</u>	<u>-</u>	<u>4,137,595</u>
Less Accumulated Depreciation:				
Buildings and improvements	592,749	96,177	-	688,926
Equipment	201,872	31,151	-	233,023
Vehicles	-	-	-	-
Total Accumulated Depreciated	<u>794,621</u>	<u>127,328</u>	<u>-</u>	<u>921,949</u>
Total	<u>\$ 3,332,760</u>	<u>\$ (117,114)</u>	<u>\$ -</u>	<u>\$ 3,215,646</u>

Depreciation expense (including amortization of capitalized assets) of the enterprise funds for the year ended June 30, 2014, was \$127,328.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

4. Capital Assets, continued

A summary of HWEA's enterprise fund property, plant and equipment at June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Enterprise Fund Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 1,571,840	\$ -	\$ -	\$ 1,571,840
Construction in progress	4,340,560	3,359,251	1,917,454	5,782,357
Total Capital Assets Not Being Depreciated	<u>5,912,400</u>	<u>3,359,251</u>	<u>1,917,454</u>	<u>7,354,197</u>
Capital Assets Being Depreciated:				
Structures and Improvements	149,104,892	1,840,099	4,113	150,940,878
Equipment	10,158,306	201,789	870,427	9,489,668
Vehicles	871,438	254,428	278,369	847,497
Total Capital Assets Being Depreciated	<u>160,134,636</u>	<u>2,296,316</u>	<u>1,152,909</u>	<u>161,278,043</u>
Less Accumulated Depreciation:				
Structures and Improvements	53,842,482	3,356,583	2,434	57,196,631
Equipment	8,250,650	432,492	858,092	7,825,050
Vehicles	557,878	67,043	278,369	346,552
Total Accumulated Depreciation	<u>62,651,010</u>	<u>3,856,118</u>	<u>1,138,895</u>	<u>65,368,233</u>
Total	<u>\$ 103,396,026</u>	<u>\$ 1,799,449</u>	<u>\$ 1,931,468</u>	<u>\$ 103,264,007</u>

Depreciation expense (including amortization of capitalized assets) for HWEA for the year ended June 30, 2014, was \$3,856,118.

A summary of Solid Waste enterprise fund property, plant and equipment at June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Enterprise Fund Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 615,582	\$ -	\$ -	\$ 615,582
Construction in Progress	61,520	733,591	-	795,111
Total Capital Assets Not Being Depreciated	<u>677,102</u>	<u>733,591</u>	<u>-</u>	<u>1,410,693</u>
Capital Assets Being Depreciated:				
Buildings	184,605	-	-	184,605
Equipment	6,334,355	1,770,439	744,911	7,359,883
Land Improvements	1,947,530	-	-	1,947,530
Total Capital Assets Being Depreciated	<u>8,466,490</u>	<u>1,770,439</u>	<u>744,911</u>	<u>9,492,018</u>
Less Accumulated Depreciation:				
Buildings and Improvements	52,042	5,341	-	57,383
Equipment	4,271,395	588,112	149,552	4,709,955
Land Improvements	559,024	6,394	-	565,418
Total Accumulated Depreciation	<u>4,882,461</u>	<u>599,847</u>	<u>149,552</u>	<u>5,332,456</u>
Total	<u>\$ 4,261,131</u>	<u>\$ 1,904,183</u>	<u>\$ 595,359</u>	<u>\$ 5,569,955</u>

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

4. Capital Assets, continued

Depreciation expense (including amortization of capitalized assets) for Solid Waste for the year ended June 30, 2014, was \$599,848.

A summary of Storm Water enterprise fund property, plant and equipment at June 30, 2014, is as follows:

Enterprise Fund Activities	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 493,903	\$ 3	\$ -	\$ 493,906
Construction in Progress	140,705	29,692	-	170,397
Total Capital Assets Not Being Depreciated	<u>634,608</u>	<u>29,695</u>	<u>-</u>	<u>664,303</u>
Capital Assets Being Depreciated:				
Infrastructure	4,368,494	368,020	-	4,736,514
Less Accumulated Depreciation:				
Infrastructure	<u>287,024</u>	<u>180,937</u>	<u>-</u>	<u>467,961</u>
Total	<u>\$ 4,716,078</u>	<u>\$ 216,778</u>	<u>\$ -</u>	<u>\$ 4,932,856</u>

Depreciation expense (including amortization of capitalized assets) for Storm Water for the year ended June 30, 2014 was \$180,937.

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 September 1, 2008 through December 31, 2013 may receive a maximum of twelve months of service credit for unused sick time. Members with a participation date after December 31, 2013 cannot receive service credit for unused sick time. The amount of service credit is based on a mathematical calculation with a factor that considers the retiree's wage, age, and years of service. Currently, the rate is approximately 38% of the total unused sick time times the member's pay rate.

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

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

6. Employee Retirement Systems, continued

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

Funding policy. Plan members participating in CERS on or before August 31, 2008, are required to contribute 5% or 8% of their annual creditable compensation for nonhazardous and hazardous position plan members, respectively. For plan members who began participating in CERS on or after September 1, 2008, the contribution rates are 6% and 9%, respectively. The City is required to contribute at an actuarially determined rate. The current rate is 18.89% of annual covered payroll for nonhazardous and 35.70% for hazardous position members. The contribution requirements of plan members and the City are established and may be amended by KRS Board of Trustees. The City's contribution to CERS for the three years ended June 30, 2014, 2013, and 2012, was \$3,621,534, \$3,631,947, and \$3,322,608, respectively, equal to the required contribution for these years. HWEA's contribution to CERS for the three years ended June 30, 2014, 2013, and 2012, was \$495,315, \$513,732, and \$508,581, respectively, equal to the required contribution for these years. The Solid Waste's contributions to CERS for the three years ended June 30, 2014, 2013, and 2012, was \$305,092, \$299,387 and \$272,609, 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.

Continued

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

6. Employee Retirement Systems, continued

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

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

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

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

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.

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

6. Employee Retirement Systems, continued

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	115,666
Adjustment to annual required contribution	<u>(444,691)</u>
Annual pension cost	432,195
Contributions made	<u>(400,000)</u>
Increase in net pension obligation	32,195
Net pension obligation beginning of year	<u>1,927,761</u>
 Net pension obligation end of year	 <u><u>\$1,959,956</u></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>
6/30/12	446,809	90%	1,888,941
6/30/13	438,820	91%	1,927,761
6/30/14	432,195	93%	1,959,956

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</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Liability</u> <u>(AAL)</u> <u>entry age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>(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.

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

6. Employee Retirement Systems, continued

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, 2014.

8. Construction Commitment

At June 30, 2014, 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 \$7.31 million with approximately \$3.69 million remaining for the project. The total expenditures for the renovation of the parks within the City at the end of the year were \$756 thousand with approximately \$744 thousand remaining for the project. The total expenditures for the rails to trails project at the end of the year were approximately \$1.29 million with approximately \$407 thousand remaining for the project.

At June 30, 2014, HWEA had several material construction projects underway: water tank rehab project, US-41A improvements and interconnect, water tank project, water main extension, natural gas project, sewage pump station upgrades, rehab OG pump station and sewer extension, and phase 7 priority two rehab. The total expenditures for these projects at the end of the year were approximately \$5.285 million with approximately \$30.2 million remaining for the projects.

Continued

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

8. Construction Commitment, continued

At June 30, 2014, the Solid Waste had two material projects pending. For the Leachate Treatment Facility project, total expenditures for the project were approximately \$680 thousand with approximately \$390 thousand remaining for the project. For the Administration/Office Building project, total expenditures for the project at year end were approximately \$120 thousand with approximately \$210 thousand remaining for the project.

At June 30, 2014, 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 \$338 thousand with approximately \$96 thousand remaining for the study.

9. Deferred Outflows of Resources

The City reports a decrease in net assets that relate to future periods as deferred outflows of resources in a separate section of its Statement of Net Position. The only deferred outflows of resources reported in the Statement of Net Position are a deferred amount arising from the refunding of bonds in a previous year. The deferred refunding amount is being amortized over the remaining life of the refunding bonds.

HWEA reports a decrease in net assets that relate to future periods as deferred outflows of resources in a separate section of its Statement of Net Position. The only deferred outflows of resources reported in the Statement of Net Position are a deferred amount arising from the refunding of bonds in a previous year. The deferred refunding amount is being amortized over the remaining life of the refunding bonds.

10. Long-Term Obligations

Long-term obligations are reported net of premiums and discounts. Premiums and discounts are amortized over the life of the debt to maturity.

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

10. Long-Term Obligations, continued

During the year ended June 30, 2014, the following changes occurred in long-term liabilities:

	Principal Outstanding July 1, 2013	Additions	Reductions	Principal Outstanding June 30, 2014	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 1,232,261	\$ 1,299,547	\$ 101,741	\$ 2,430,067	\$ 27,639*
Net Pension Obligation	1,927,761	32,195	-	1,959,956	-
Capital Leases	731,749	931,778	370,070	1,293,457	350,858
General Obligation Lease	1,487,083	400,000	177,083	1,710,000	247,083
General Obligation Bond	17,770,838	12,120,000	5,333,622	24,557,216	883,156
Notes Payable	1,804,200	-	108,437	1,695,763	186,776
Plus: Unamortized premium	145,017	140,655	21,865	263,807	-
Less: Unamortized discount	<u>(34,339)</u>	<u>-</u>	<u>(1,456)</u>	<u>(32,883)</u>	<u>-</u>
Total Governmental Activities	<u>\$ 25,064,570</u>	<u>\$ 14,924,175</u>	<u>\$ 6,111,362</u>	<u>\$ 33,877,383</u>	<u>\$ 1,695,512</u>
Business Type Activities-HWEA:					
Compensated Absences	\$ 464,356	\$ 269,861	\$ 232,076	\$ 502,141	\$ 297,943*
Revenue Bonds	23,593,567	-	1,507,500	22,086,067	1,567,500
Notes Payable	40,042,011	3,070,625	2,137,556	40,975,080	2,177,855
Payable to City of Hopkinsville:					
General obligation bond	-	3,520,000	-	3,520,000	130,000
Non-interest bearing note	109,293	-	109,293	-	-
Plus: Unamortized premium	-	92,306	2,307	89,999	-
Less: Unamortized discount	<u>(243,272)</u>	<u>-</u>	<u>(21,229)</u>	<u>(222,143)</u>	<u>-</u>
Total Business Type Activities- HWEA	<u>\$ 63,965,955</u>	<u>\$ 6,952,792</u>	<u>\$ 3,967,503</u>	<u>\$ 66,951,144</u>	<u>\$ 4,173,298</u>
Business Type Activities-Solid Waste:					
Compensated Absences	\$ 191,292	\$ 51,879	\$ -	\$ 243,171	\$ 36,476*
Payable to City of Hopkinsville:					
Capital vehicle Lease	731,749	931,778	370,070	1,293,457	350,858
General obligation lease	1,487,083	400,000	177,083	1,710,000	247,083
Capital lease	427,134	-	427,134	-	-
Plus: Unamortized premium	28,920	-	3,814	25,106	-
Accrued Landfill Closing Costs	<u>5,767,215</u>	<u>-</u>	<u>212,943</u>	<u>5,554,272</u>	<u>-</u>
Total Business Type Activities- Solid Waste	<u>\$ 8,633,393</u>	<u>\$ 1,383,657</u>	<u>\$ 1,191,044</u>	<u>\$ 8,826,006</u>	<u>\$ 634,417</u>

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

10. Long-Term Obligations, continued

	Principal Outstanding July 1, 2013	Additions	Reductions	Principal Outstanding June 30, 2014	Due Within One Year
Business Type					
Activities-Storm Water:					
Payable to City of Hopkinsville:					
General obligation bonds	\$ 4,586,678	\$ 4,635,000	\$ 4,666,678	\$ 4,555,000	\$ 75,000
Plus: Unamortized Premium	<u>-</u>	<u>10,245</u>	<u>209</u>	<u>10,036</u>	<u>-</u>
Total Business Type Activities- Storm Water	<u>\$ 4,586,678</u>	<u>\$ 4,645,245</u>	<u>\$ 4,666,887</u>	<u>\$ 4,565,036</u>	<u>\$ 75,000</u>
Total Business Type Activities- Component	<u>\$ 77,186,026</u>	<u>\$ 12,981,694</u>	<u>\$ 9,825,434</u>	<u>\$ 80,342,186</u>	<u>\$ 4,882,715</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.

See Note 12 regarding Capital Leases.

The Kentucky Bond Corporation (KBC) issued a general obligation lease agreement with the City on behalf of Solid Waste for \$1,835,000 in April 2011 for the purpose of funding the construction of a vertical expansion of the landfill and leachate treatment station located at the landfill. This lease has a variable interest rate, currently 3.0% plus administrative fees, and matures on January 1, 2021.

US Bank National Association issued a general obligation refunding with the City on behalf of Storm Water for \$4,635,000 in December 2013 for the purpose of refinancing the 2009 KLC Bond for the acquisition, construction and installation of surface and storm water projects within the City. The bonds have a fixed interest rate of 2.00% and mature on March 1, 2038.

Branch Banking and Trust Company issued a general obligation lease agreement with the City, on behalf of Solid Waste, for \$400,000 in December 2013. The lease is for the acquisition, construction, installation, and equipping of a solid waste enterprise administration building. This agreement has a variable interest rate, currently 1.98%, and matures on December 1, 2019.

General obligation lease agreements are direct obligations and pledge the full faith and credit of the government.

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

10. Long-Term Obligations, continued

Annual debt service requirements to maturity for general obligation lease agreements are as follows:

Fiscal Year Ending June 30	Governmental Activities Principal	Interest	Enterprise Fund Component Units Principal	Interest
2015	\$ 247,083	\$ 56,652	\$ 247,083	\$ 56,652
2016	252,083	49,447	252,083	49,447
2017	257,083	42,080	257,083	42,080
2018	264,167	34,550	264,167	34,550
2019	277,083	25,886	277,083	25,886
2020-2021	<u>412,501</u>	<u>21,416</u>	<u>412,501</u>	<u>21,416</u>
Total	<u>\$ 1,710,000</u>	<u>\$ 230,031</u>	<u>\$ 1,710,000</u>	<u>\$ 230,031</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 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 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 2012 for the purpose of refinancing bonds issued in 2004 and 2006 which were used for the funding certain project improvements. General obligation bonds were issued during 2014 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 2014 on behalf of component unit HWEA to fund the construction of a 2MG water tank and water mains along Eagle Way Bypass and US-41A. General obligation bonds were issued in 2009 on behalf of component unit Storm Water for the purpose of funding the acquisition, construction, and installation of surface and storm water projects within the jurisdiction of the City. These general obligations bonds were refinanced by a general obligation refunding bond during 2014. 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>2014</u>
Kentucky League of Cities Funding GO, 2003 Series B - \$1,034,000	08/01/2017	4%-5.3%	\$ 375,000
Kentucky League of Cities Funding GO, 2004 Series A - \$1,250,000	03/01/2016	3%-3.75%	220,132
Kentucky Bond Corporation GO, 2010 First Series A - \$1,055,000	01/01/2019	2.50%	552,084

**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>2014</u>
Kentucky Bond Corporation GO, 2011 Series A - \$4,965,000	02/01/2026	2%-3.125%	\$ 4,250,000
Kentucky Bond Corporation GO, 2011 Series B - \$7,220,000	02/01/2037	2%-3.75%	7,120,000
US Bank National Association GO, 2013 Series C - \$3,965,000	02/01/2038	2%-3.75%	3,965,000
US Bank National Association GO, 2013 Series B - \$3,520,000	10/01/2033	2%-4.50%	3,520,000
US Bank National Association GO, 2013 Series B - \$4,635,000	03/01/2038	2%-4.25%	<u>4,555,000</u>
			24,557,216
Plus: Unamortized bond premium			263,807
Less: Unamortized bond discount			<u>(32,883)</u>
	Total		<u>\$ 24,788,140</u>
 <u>Business Type Activities-HWEA:</u>	 <u>Matures</u>	 <u>Rate</u>	 <u>2014</u>
Due to City of Hopkinsville, US Bank	10/01/2033	2%-4.50%	\$ 3,520,000
Plus: Unamortized bond premium			<u>89,999</u>
	Total		<u>\$ 3,609,999</u>
 <u>Business Type Activities-Storm Water:</u>	 <u>Matures</u>	 <u>Rate</u>	 <u>2014</u>
Due to City of Hopkinsville, US Bank	03/01/2038	2%-4.25%	\$ 4,555,000
Plus: Unamortized bond premium			<u>10,036</u>
	Total		<u>\$ 4,565,036</u>

Continued

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

10. Long-Term Obligations, continued

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, 2014, was:

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>2014</u>
Oshkosh Capital - \$610,706	04/12/2017	3%	\$ 345,763
Section 108 Guaranteed Loan - \$1,500,000	08/31/2031	2.50%	<u>1,350,000</u>
	Total		<u>\$ 1,695,763</u>
<u>Business Type Activities-HWEA:</u>	<u>Matures</u>	<u>Rate</u>	<u>2014</u>
KIA Fund A Wastewater - \$9,190,530	2016	1.2%	\$ 812,699
KIA Fund B Water Plant - \$5,000,000	2026	1.9%	2,344,590
KIA Fund A Phase II - \$3,167,272	2018	1.8%	732,941
KIA Fund A Wastewater - \$240,264	2017	1.2%	39,805
KIA Fund A - \$614,521	2020	0.4%	183,500
KIA Fund A Phase III - \$834,891	2021	3.8%	342,562
KIA Fund A Phase IV - \$4,583,635	2026	1.0%	2,819,572
KIA Fund C Wastewater	2018	4.00 to 4.25%	240,000
KIA Fund F Drinking Water - \$1,513,593	2028	1.0%	1,090,778
KIA Fund A Phase V - \$2,469,924	2027	1.0%	1,665,379
KIA Fund F Water - \$3,887,432	2028	3.0%	3,047,724
KIA Fund F Water - \$8,800,000	2032	1.0%	8,199,164
KIA Fund A Sewer - \$483,710	2033	2.0%	463,822
KIA Fund A-loan not closed yet			17,355,544
KY Rural Finance	2025	3.125 to 4.50%	360,000
KY Rural Finance	2029	2.28 to 4.405%	<u>1,277,000</u>
	Total		<u>\$ 40,975,080</u>

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

10. Long-Term Obligations, continued

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

Fiscal Year Ending June 30	Governmental		Enterprise Fund	
	Activities Principal	Interest	Component Units Principal	Interest
2015	\$ 1,317,016	\$ 916,380	\$ 2,382,855	\$ 673,075
2016	1,365,361	869,500	2,225,518	632,128
2017	1,437,934	835,581	1,988,261	595,522
2018	1,350,167	798,827	2,011,896	557,760
2019	1,230,000	765,133	1,789,339	519,856
2020-2024	5,357,501	3,352,479	9,075,746	2,080,679
2025-2029	5,685,000	2,539,252	7,393,789	1,169,908
2030-2034	6,315,000	1,469,472	21,272,676	473,907
2035-2038	<u>3,905,000</u>	<u>346,233</u>	<u>910,000</u>	<u>85,496</u>
Total	<u>\$ 27,962,979</u>	<u>\$11,892,857</u>	<u>\$ 49,050,080</u>	<u>\$ 6,788,331</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>Business Type Activities-HWEA:</u>	<u>Matures</u>	<u>Rate</u>	<u>2014</u>
Water Sewer Facilities-1998-\$1,650,000	10/01/2021	3.75% to 4.90%	\$ 530,000
Water Sewer Facilities-2005A-\$25,635,000	10/01/2026	3.375% to 4.00%	18,145,000
Water Sewer Facilities-2005B-\$1,545,000	10/01/2017	3.00% to 3.75%	465,000
Water Sewer Facilities-2010-\$3,588,000	04/01/2030	3.20% to 4.40%	<u>2,946,067</u>
			22,086,067
Less: Unamortized bond discount			(222,143)
	Total		<u>\$21,863,924</u>

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

Fiscal Year Ending June 30	Governmental Activities	Interest	Business Type Activities HWEA	Interest
2015	\$ -	\$ -	\$ 1,567,500	\$ 858,457
2016	-	-	1,627,500	797,898
2017	-	-	1,690,000	732,788
2018	-	-	1,595,000	667,816
2019	-	-	1,661,500	602,801
2020-2024	-	-	9,030,000	1,950,507
2025-2029	-	-	4,784,000	325,623
2030	-	-	<u>130,567</u>	<u>5,500</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$22,086,067</u>	<u>\$ 5,941,390</u>

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, 2014, 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, 2014 was \$424,025. Interest capitalized was \$245,537, and interest expensed was \$178,488 for the year ended June 30, 2013.

Total interest cost incurred for HWEA for the year ended June 30, 2014 was \$1,774,999. Interest cost capitalized was \$258,691, and interest cost expensed was \$1,516,308 for the year ended June 30, 2014.

Total interest cost incurred for Solid Waste for the year ended June 30, 2014 was \$110,786. Interest cost capitalized was \$15,034, and interest cost expensed was \$95,752.

Total interest cost incurred for the Storm Water was \$126,525 for the year ended June 30, 2014. Interest cost capitalized was \$18,979 and interest cost expensed was \$107,546 for the year ended June 30, 2014.

12. Capital 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 was 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.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

12. Capital Leases, continued

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. This lease was paid off and the related property sold in October 2013.

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. This lease was paid off and the related property was sold in June 2014.

Solid Waste is liable to the City for debt that mirrors the City's debt to Kentucky Association of Counties Leasing Trust. On October 16, 2013, 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 of April 20, 2015. 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 June 11, 2014, Solid Waste leased four 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 December 20, 2015. There is an option to purchase at any point during the agreement for the purchase price and accrued interest.

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

	<u>2014</u>
Equipment under capital leases	\$1,438,678
Less accumulated depreciation	<u>(234,434)</u>
Total	<u>\$1,204,244</u>

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

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

12. Leases, continued

The future minimum lease obligations as of June 30, 2014, 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>
2015	\$ 404,871	\$ 54,013	\$ 350,858
2016	743,068	24,585	718,483
2017	79,766	7,509	72,257
2018	79,766	5,088	74,678
2019	<u>79,766</u>	<u>2,585</u>	<u>77,181</u>
Total	<u>\$ 1,387,237</u>	<u>\$ 93,780</u>	<u>\$ 1,293,457</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 automatically extended by a twenty (20) year period if no notice is given within the one (1) year time period provided. The Storm Water will pay the sum of \$1 per year to the City and further maintain property in the manner stated in the lease. The Storm Water will provide insurance for coverage of activities on the premises. Also, the Storm Water must honor existing lease agreements running with the premises.

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

13. Interfund Transfers

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

Interfund transfers for the year ended June 30, 2014, consisted of the following:

	Transfer From:				
	General Fund	Tie Breaker Family Fund	City Hall/PD Construction Fund	Nonmajor Governmental Type	Total
General Fund	\$ -	\$ -	\$ -	\$ 303,241	\$ 303,241
Tie Breaker Family Fund	125,000	-	-	-	125,000
City Hall/PD Construction	15,757	-	-	-	15,757
Nonmajor Governmental Type	<u>1,492,352</u>	<u>-</u>	<u>-</u>	<u>169,207</u>	<u>1,661,559</u>
Total	<u>\$ 1,633,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 472,448</u>	<u>\$ 2,105,557</u>

The City did not have any non-cash transfers.

14. Interfund Balances

There were no interfund receivables or payables between the governmental funds at June 30, 2014.

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

15. Fund Balance Classification

The composition of the fund balance classifications at June 30, 2014 are as follows:

	Major Funds		Other Governmental Funds	Total
	General	City Hall/PD Construction		
Fund balances:				
Nonspendable:	\$ -	\$ -	\$ -	\$ -
Restricted for:				
City Hall/PD Construction	-	3,789,241	-	3,789,241
Municipal road aid	-	-	-	-
Community development block grant	-	-	-	-
Police incentive	-	-	18,603	18,603
Fire incentive	-	-	20,666	20,666
Urban development action grant	-	-	814,956	814,956
Grants	-	-	81,449	81,449
Expendable trust	-	-	473,536	473,536
Capital fund	-	-	156,069	156,069
Section 108 CDBG fund	-	-	644,714	644,714
Nonexpendable trust	-	-	413,039	413,039
Committed:				
General government	196,125	-	-	196,125
Public safety	112,221	-	212,987	325,208
Public works	-	-	-	-
Community development	862,838	-	-	862,838
Parks and recreation	38,051	-	-	38,051
Assigned (Encumbrances):				
General government	167,591	-	-	167,591
Public safety	119,634	-	7,535	127,169
Public works	112,087	-	-	112,087
Community development	10,500	-	74,855	85,355
Parks and recreation	13,750	-	-	13,750
Municipal road aid	-	-	185,996	185,996
Other purposes	-	-	534,599	534,599
Unassigned:	<u>8,565,427</u>	<u>-</u>	<u>-</u>	<u>8,565,427</u>
Total fund balances:	<u>\$10,198,224</u>	<u>\$ 3,789,241</u>	<u>\$ 3,639,004</u>	<u>\$ 17,626,469</u>

Total encumbrances for General Fund total \$423,562. Total encumbrances for City Hall/PD Construction Fund total \$0. Total encumbrances for Nonmajor Funds total \$802,985.

Continued

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

16. Claims and Judgments

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

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

17. Community Development Loan Funds

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

18. Contingencies

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

19. Risk Management

The City 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**

19. Risk Management, continued

The Health Insurance Fund was established to account for the City's employee health care coverage program that is self-insured by the City. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At June 30, 2014, the claims liability was \$131,958 (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>
2012-2013	\$ 57,242	\$1,414,131	\$1,430,438	\$ 40,935
2013-2014	\$ 40,935	\$1,706,007	\$1,614,984	\$ 131,958

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, 2014, the claims liability was \$56,910. 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>
2012-2013	\$ 30,074	\$ 314,165	\$ 313,804	\$ 30,435
2013-2014	\$ 30,435	\$ 396,742	\$ 370,267	\$ 56,910

20. Closure and Postclosure Care Costs

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

The \$5,554,272 reported as Solid Waste landfill closure and postclosure care liability at June 30, 2014, represents the cumulative amount reported to date based on the use of approximately 72 percent of the capacity of the landfill. These amounts are based on what

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

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

it would cost to perform all closure and postclosure care in 2014 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 \$7,722,614, leaving \$2,168,342 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, 2014, \$2,510,889 is held for such purposes and reported as restricted assets on the balance sheet. The Solid Waste expects future inflation costs will be paid from these funds combined with the scheduled future funding and related investment income. However, if earnings are inadequate or additional postclosure care requirements are determined due to changes in technology, laws, regulations, or other, additional funding would be required.

21. Deferred Grant Revenues

The Storm Water received grant money from the Kentucky Agricultural Development Board and other agencies totaling \$253,500. 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, 2014 was \$85,583. The amount of deferred grant revenue at June 30, 2014 was \$86,583.

22. Related Party Transactions

The following are related party transactions by the City with its three discretely presented component units: Hopkinsville Water Environment Authority (HWEA), Hopkinsville Solid Waste 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 \$81,759 for providing customer billing and collection services and \$100,540 for leachate purification services for the year ended June 30, 2014. Accounts payable for these services at June 30, 2013 was \$36,265.

The City assesses a percentage of Solid Waste revenue as payment in lieu of taxes. The Solid Waste paid the City \$191,749 for payment in lieu of taxes for the year ended June 30, 2014. At June 30, 2014, accounts payable for these payments was \$16,152.

Continued

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

22. 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, 2014, 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, 2014, 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, 2014, the expense for billing and collection services totaled \$69,196. At June 30, 2014, accounts payable for these services was \$6,501.

23. Subsequent Event

Subsequent to year end, the City issued a bond in the amount of \$2.545 million. The City will use this financing for three projects: US Smokeless Tobacco, Conference Center TIF, and the Visitor's Center. The City has entered into a grant agreement with Hopkinsville Industrial Foundation, Inc., Christian County, and US Smokeless Tobacco Manufacturing Company LLC for the purpose of financing the acquisition, construction, and installation of an economic development project. The City will finance the acquisition, construction, installation, and equipping of public infrastructure in the Conference Center Tax Increment Finance Local Development Area. The City will finance 90% of the construction cost of a new Visitors/Welcome Center at the Trail of Tears Park.

Subsequent to year end, the City issued general obligation refunding bonds on behalf of HWEA in the amount of \$1.645 million to refund the 2001H and 2004B KY Rural Water Finance bonds and realize debt service savings. Proceeds from the 2001H and 2004B bond issues were initially used in relation to the Oak Grove sewer system.

The City, on behalf of HWEA, issued general obligation refunding bonds in the amount of \$17.43 million to refund the Series 2005A bonds in advance of maturity in order to realize debt service savings. The Series 2005A bonds were initially issued to construct a water line from Lake Barkley to the Moss Water Treatment Plant.

Subsequent to year end, HWEA entered into a contract with King Pipeline of Nashville, Tennessee to construct a natural gas connection and 6.3 miles of pipeline along the US-41A corridor. The project is being funded by a \$4 million special project grant from the United States Department of Housing and Urban Development with additional financing coming from the issuance of 2014B general obligation bonds in the amount of \$1,695,000. These bonds were issued by the City on behalf of HWEA.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

23. Subsequent Event, continued

HWEA entered into an agreement with the United States Army Corps of Engineers (USACE) to design and construct approximately 7.9 miles of 8' natural gas pipeline in order to serve the Fort Campbell Army Post with a redundant connection for natural gas supply. Funding for this project is being provided by the US Defense Finance and Accounting Services; however, HWEA will need to provide financing for the construction of the project. Once the project is complete and placed into full operation, HWEA will then be reimbursed for the full amount of the project over a 10-year amortization period. The estimated total cost of the project is \$15.4 million. In order to fund this project, the City, on behalf of HWEA, entered into a financing agreement with a local bank to provide financing not to exceed \$11,025,000, with the remaining project cost to come from local funding by the USACE and Fort Campbell.

HWEA entered into another agreement with USACE to design and construct approximately 4.4 miles of 16" ductile iron water main in order to serve the Fort Campbell Army Post with a redundant connection for domestic water supply. Funding for this project is being provided by the US Defense Finance and Accounting Services; however, HWEA will need to provide financing for the construction of the project. Once the project is complete and placed into full operation, HWEA will then be reimbursed for the full amount of the project over a 10-year amortization period. The estimated total cost of this project is \$5.2 million. In order to fund this project, the City, on behalf of HWEA, entered into a financing agreement with a local bank to provide financing not to exceed \$5,040,000, with the remaining project cost to come from local funding by the USACE and Fort Campbell.

24. New Pronouncements

The City implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. GASB Statement No. 65 also identifies certain items previously reported as assets and liabilities that GASB determined should be recognized as revenues or expenses when incurred and not reported in Statements of Net Position at all. As a result of implementing this Statement, the City restated its financial statements for bond issuance costs that were amortized under the prior standards but expensed in the period incurred under the new standards. Implementation of this Statement resulted in the City reporting deferred outflows of resources at June 30, 2014 related to deferred refunding costs. See note disclosure 1W entitled "Restatement" for more information on the effect to net position.

25. 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, 2014**

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>
2010	761,220	53.0%
2011	761,220	52.5%
2012	761,220	52.5%
2013	761,220	52.5%
2014	761,220	52.5%

3. NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

City of Hopkinsville, Kentucky
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,922,500	\$ 4,987,500	\$ 4,557,916	\$ (429,584)
Licenses and permits	19,595,000	20,089,000	20,660,296	571,296
Fines and forfeits	40,000	40,000	44,341	4,341
Intergovernmental	2,789,983	3,035,463	3,012,655	(22,808)
Charges for services	245,000	245,000	267,592	22,592
Interest	15,000	15,000	21,525	6,525
Other revenues	508,309	548,309	523,771	(24,538)
Total Revenues	28,115,792	28,960,272	29,088,096	127,824
EXPENDITURES				
Current:				
General government:				
Administrative	1,582,865	1,769,512	1,638,105	131,407
Tax department	592,186	655,268	564,783	90,485
Information technology	763,286	711,742	670,060	41,682
Legislative	334,031	338,949	331,597	7,352
Public safety:				
Police	7,237,661	7,312,285	7,129,150	183,135
Emergency communications	1,048,734	1,098,620	1,073,733	24,887
Fire	7,181,434	7,219,173	7,163,087	56,086
Other	400,000	400,000	400,000	-
Public works:				
Administrative	251,501	255,772	242,868	12,904
Street	2,661,888	2,374,258	2,215,447	158,811
Service center	345,758	357,680	346,108	11,572
Other	337,161	374,344	360,500	13,844
Community development	4,329,463	3,791,205	3,679,284	111,921
Parks and recreation	481,772	535,569	498,792	36,777
Debt service:				
Principal	775,382	775,382	775,382	-
Interest & finance charges	424,025	424,025	424,025	-
Capital outlays	-	278,189	278,189	-
Total expenditures	28,747,147	28,671,973	27,791,110	880,863
Excess of revenues over (under) expenditures	(631,355)	288,299	1,296,986	1,008,687
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Transfers in	278,944	278,944	302,171	23,227
Transfers out	(725,000)	(939,248)	(942,493)	(3,245)
Total other financing sources (uses)	(446,056)	(660,304)	(640,322)	19,982
Net change in fund balance	(1,077,411)	(372,005)	656,664	1,028,669
Fund balance, beginning of year	9,204,885	9,204,885	9,204,885	-
Fund balance, end of year	\$ 8,127,474	\$ 8,832,880	\$ 9,861,549	\$ 1,028,669

**CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)
ON BUDGETARY ACCOUNTING AND CONTROL
For the Year Ended June 30, 2014**

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, 2014, of the General Fund is presented below.

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	\$ 656,664
Adjustments:	
To adjust expenditures for salary accruals	(149,528)
To adjust expenditures for payable accruals	(14,352)
To adjust revenues for tax and license accruals	<u>339,979</u>
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 832,763</u>

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

City of Hopkinsville, Kentucky
Note to Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014

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

	General Fund (Budgetary)	Budgetary to GAAP Adjustments *	Special Revenue Funds	Total
REVENUES				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	29,088,096	29,088,096	9,013	29,097,109
Adjustments:				
The City budgets for receivables on the cash basis, rather than on the modified accrual basis	-	339,979	-	339,979
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	-	-	-	-
Total revenues as reported on the budgetary comparison schedule	<u>29,088,096</u>	<u>+ 29,428,075</u>	<u>9,013</u>	<u>29,437,088</u> ^
EXPENDITURES				
Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule	(27,791,110)	27,791,110	-	27,791,110
Adjustments:				
The City budgets for payables on the cash basis, rather than on the modified accrual basis	-	(14,352)	-	(14,352)
The City budgets for payroll on the cash basis, rather than on the modified accrual basis	-	(149,528)	-	(149,528)
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	-	-	(513,349)	(513,349)
Total expenditures as reported on the budgetary comparison schedule	<u>(27,791,110)</u>	<u>+ 27,627,230</u>	<u>(513,349)</u>	<u>27,113,881</u> ^
OTHER FINANCING SOURCES (USES)				
Transfers in	302,171	302,171	1,070	303,241
Transfers out	(942,493)	(942,493)	(690,616)	(1,633,109)
Total other financing sources (uses)	(640,322)	+ (640,322)	(689,546)	(1,329,868) ^
Excess of revenues and other financing sources over/ (under) expenditures and other financing uses	<u>\$ 656,664</u>	<u>+ \$ 56,414,983</u>	<u>** \$ (1,193,882)</u>	<u>\$ 55,221,101</u> ^
Reclassifications:				
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	\$ (690,616)	\$ -	\$ 690,616	\$ -

* 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, 2014**

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
ASSETS				
Pooled cash and cash equivalents	\$ 1,348,710	\$ 1,028,550	\$ -	\$ 2,377,260
Non-pooled cash and cash equivalents	97,721	751,107	75,049	923,877
Investments	375,815	-	337,990	713,805
Loans receivable	223,318	-	-	223,318
Due from component unit	-	-	-	-
Other receivables	55,587	-	-	55,587
 Total assets	 \$ 2,101,151	 \$ 1,779,657	 \$ 413,039	 \$ 4,293,847
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 210,568	\$ 444,275	\$ -	\$ 654,843
Interfund payables	-	-	-	-
Total liabilities	210,568	444,275	-	654,843
 FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	1,670,061	1,335,382	413,039	3,418,482
Committed	212,987	-	-	212,987
Assigned	7,535	-	-	7,535
Unassigned	-	-	-	-
Total fund balances	1,890,583	1,335,382	413,039	3,639,004
Total liabilities and fund balances	\$ 2,101,151	\$ 1,779,657	\$ 413,039	\$ 4,293,847

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ 2,305,056	\$ -	\$ -	\$ 2,305,056
Investment income	28,308	-	5,911	34,219
Insurance proceeds	-	13,362	-	13,362
Donations	-	117,044	-	117,044
Other	<u>272,291</u>	<u>-</u>	<u>10,045</u>	<u>282,336</u>
Total revenues	<u>2,605,655</u>	<u>130,406</u>	<u>15,956</u>	<u>2,752,017</u>
EXPENDITURES				
Current:				
General government	13,031	-	-	13,031
Public safety	693,944	57,070	-	751,014
Public works	506,147	240	-	506,387
Community development	1,020,583	186,373	-	1,206,956
Debt Service:				
Principal	-	108,437	-	108,437
Interest	16,594	13,989	-	30,583
Expenditures	-	-	-	-
Capital outlay	<u>665,482</u>	<u>2,771,195</u>	<u>-</u>	<u>3,436,677</u>
Total expenditures	<u>2,915,781</u>	<u>3,137,304</u>	<u>-</u>	<u>6,053,085</u>
Excess of revenues over (under) expenditures	<u>(310,126)</u>	<u>(3,006,898)</u>	<u>15,956</u>	<u>(3,301,068)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	244,207	1,417,352	-	1,661,559
Transfers out	(27,732)	(444,716)	-	(472,448)
Issuance of debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>216,475</u>	<u>972,636</u>	<u>-</u>	<u>1,189,111</u>
Net change in fund balances	(93,651)	(2,034,262)	15,956	(2,111,957)
Fund balances, beginning of year	<u>1,984,234</u>	<u>3,369,644</u>	<u>397,083</u>	<u>5,750,961</u>
Fund balances, end of year	<u>\$ 1,890,583</u>	<u>\$ 1,335,382</u>	<u>\$ 413,039</u>	<u>\$ 3,639,004</u>

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014**

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Miscellaneous Grants	Drug Enforcement	Expendable Trust Funds	Total Nonmajor Special Revenue Funds
ASSETS									
Pooled cash and cash equivalents	\$ 352,677	\$ -	\$ 18,603	\$ 20,666	\$ 591,638	\$ 144,604	\$ 220,522	\$ -	\$ 1,348,710
Non-pooled cash and cash equivalents	-	-	-	-	-	-	-	97,721	97,721
Investments	-	-	-	-	-	-	-	375,815	375,815
Loans receivable	-	-	-	-	223,318	-	-	-	223,318
Due from component unit	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	55,587	-	-	55,587
Total assets	<u>\$ 352,677</u>	<u>\$ -</u>	<u>\$ 18,603</u>	<u>\$ 20,666</u>	<u>\$ 814,956</u>	<u>\$ 200,191</u>	<u>\$ 220,522</u>	<u>\$ 473,536</u>	<u>\$ 2,101,151</u>
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	\$ 166,681	\$ -	\$ -	\$ -	\$ -	\$ 43,887	\$ -	\$ -	\$ 210,568
Interfund payables	-	-	-	-	-	-	-	-	-
Total liabilities	<u>166,681</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,887</u>	<u>-</u>	<u>-</u>	<u>210,568</u>
FUND BALANCES									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted	185,996	-	18,603	20,666	814,956	156,304	-	473,536	1,670,061
Committed	-	-	-	-	-	-	212,987	-	212,987
Assigned	-	-	-	-	-	-	7,535	-	7,535
Unassigned	-	-	-	-	-	-	-	-	-
Total fund balances	<u>185,996</u>	<u>-</u>	<u>18,603</u>	<u>20,666</u>	<u>814,956</u>	<u>156,304</u>	<u>220,522</u>	<u>473,536</u>	<u>1,890,583</u>
Total liabilities and fund balances	<u>\$ 352,677</u>	<u>\$ -</u>	<u>\$ 18,603</u>	<u>\$ 20,666</u>	<u>\$ 814,956</u>	<u>\$ 200,191</u>	<u>\$ 220,522</u>	<u>\$ 473,536</u>	<u>\$ 2,101,151</u>

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2014

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Miscellaneous Grants	Drug Enforcement	Expendable Trust Funds	Total Nonmajor Special Revenue Funds
REVENUES									
Intergovernmental	\$ 761,206	\$ 319,086	\$ 222,533	\$ 252,625	\$ -	\$ 749,606	\$ -	\$ -	\$ 2,305,056
Investment income	486	-	-	-	-	-	-	27,822	28,308
Other	-	-	-	-	2,683	-	269,608	-	272,291
	<u>761,692</u>	<u>319,086</u>	<u>222,533</u>	<u>252,625</u>	<u>2,683</u>	<u>749,606</u>	<u>269,608</u>	<u>27,822</u>	<u>2,605,655</u>
Total revenues	<u>761,692</u>	<u>319,086</u>	<u>222,533</u>	<u>252,625</u>	<u>2,683</u>	<u>749,606</u>	<u>269,608</u>	<u>27,822</u>	<u>2,605,655</u>
EXPENDITURES									
General government	-	-	-	-	-	-	-	13,031	13,031
Public safety	-	-	223,487	254,337	-	72,159	143,961	-	693,944
Public works	339,664	-	-	-	-	123,624	-	42,859	506,147
Community development	-	302,492	-	-	-	718,091	-	-	1,020,583
Debt Service:									
Principal	-	-	-	-	-	-	-	-	-
Interest	-	16,594	-	-	-	-	-	-	16,594
Capital Outlay	<u>596,032</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,050</u>	<u>16,400</u>	<u>665,482</u>
Total expenditures	<u>935,696</u>	<u>319,086</u>	<u>223,487</u>	<u>254,337</u>	<u>-</u>	<u>913,874</u>	<u>197,011</u>	<u>72,290</u>	<u>2,915,781</u>
Excess of revenues over (under) expenditures	<u>(174,004)</u>	<u>-</u>	<u>(954)</u>	<u>(1,712)</u>	<u>2,683</u>	<u>(164,268)</u>	<u>72,597</u>	<u>(44,468)</u>	<u>(310,126)</u>
OTHER FINANCING SOURCES (USES)									
Transfers in	75,000	-	-	-	-	164,702	4,505	-	244,207
Transfer out	-	-	-	-	-	(17,015)	(10,717)	-	(27,732)
Issuance of debt	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>147,687</u>	<u>(6,212)</u>	<u>-</u>	<u>216,475</u>
Net change in fund balances	(99,004)	-	(954)	(1,712)	2,683	(16,581)	66,385	(44,468)	(93,651)
Fund balances, beginning of year	<u>285,000</u>	<u>-</u>	<u>19,557</u>	<u>22,378</u>	<u>812,273</u>	<u>172,885</u>	<u>154,137</u>	<u>518,004</u>	<u>1,984,234</u>
Fund balances, end of year	<u>\$ 185,996</u>	<u>\$ -</u>	<u>\$ 18,603</u>	<u>\$ 20,666</u>	<u>\$ 814,956</u>	<u>\$ 156,304</u>	<u>\$ 220,522</u>	<u>\$ 473,536</u>	<u>\$ 1,890,583</u>

**City of Hopkinsville, Kentucky
Budgetary Comparison Schedule
Municipal Road Aid Special Revenue Fund
For the Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Intergovernmental	\$ 749,500	\$ 759,500	\$ 761,206	\$ 1,706
Other	-	-	-	-
Interest	<u>500</u>	<u>500</u>	<u>486</u>	<u>(14)</u>
Total Revenues	<u>750,000</u>	<u>760,000</u>	<u>761,692</u>	<u>1,692</u>
 EXPENDITURES				
Public works	825,000	238,968	173,058	65,910
Capital outlay	<u>-</u>	<u>596,032</u>	<u>596,032</u>	<u>-</u>
Total expenditures	<u>825,000</u>	<u>835,000</u>	<u>769,090</u>	<u>65,910</u>
Excess of revenues over/(under) expenditures	<u>(75,000)</u>	<u>(75,000)</u>	<u>(7,398)</u>	<u>67,602</u>
 OTHER FINANCING SOURCES (USES)				
Transfers in	75,000	75,000	75,000	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>	<u>-</u>
Net change in fund balance	-	-	67,602	67,602
Fund balance, beginning of year	<u>285,000</u>	<u>285,000</u>	<u>285,000</u>	<u>-</u>
Fund balance, end of year	<u>\$ 285,000</u>	<u>\$ 285,000</u>	<u>\$ 352,602</u>	<u>\$ 67,602</u>
Excess of revenues and other financing sources (uses) over expenditures and other financing uses (budgetary budget)			\$ 67,602	
Adjustments:				
To adjust expenditures for payable accruals			<u>(166,606)</u>	
Excess of revenues and other financing sources (uses) over expenditures and other financing uses (GAAP basis)			<u>(99,004)</u>	

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2014**

	<u>Capital Fund</u>	<u>Section 108 CDBG Loan Fund</u>	<u>Total Nonmajor Capital Projects Funds</u>
ASSETS			
Pooled cash and cash equivalents	\$ 1,028,550	\$ -	\$ 1,028,550
Non-pooled cash and cash equivalents	-	751,107	751,107
Loans receivable	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,028,550</u>	<u>\$ 751,107</u>	<u>\$ 1,779,657</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	<u>337,882</u>	<u>106,393</u>	<u>444,275</u>
Total liabilities	<u>\$ 337,882</u>	<u>\$ 106,393</u>	<u>\$ 444,275</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	690,668	644,714	1,335,382
Committed	-	-	-
Assigned	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>690,668</u>	<u>644,714</u>	<u>1,335,382</u>
Total liabilities and fund balances	<u>\$ 1,028,550</u>	<u>\$ 751,107</u>	<u>\$ 1,779,657</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, 2014

	Capital Fund	Section 108 CDBG Loan Fund	Total Nonmajor Capital Projects Funds
REVENUES			
Insurance proceeds	\$ 13,362	\$ -	\$ 13,362
Donations	113,544	3,500	117,044
Investment income	-	-	-
Total revenues	126,906	3,500	130,406
EXPENDITURES			
Current:			
General government	-	-	-
Public safety	57,070	-	57,070
Public works	240	-	240
Community development	79,980	106,393	186,373
Debt service:			
Principal	108,437	-	108,437
Interest	13,989	-	13,989
Expenditures	-	-	-
Capital outlay	2,306,079	465,116	2,771,195
Total expenditures	2,565,795	571,509	3,137,304
Excess of revenues over (under) expenditures	(2,438,889)	(568,009)	(3,006,898)
OTHER FINANCING SOURCES (USES)			
Transfers in	1,417,352	-	1,417,352
Transfers out	(280,014)	(164,702)	(444,716)
Issuance of debt	-	-	-
Total other financing sources (uses)	1,137,338	(164,702)	972,636
Net change in fund balances	(1,301,551)	(732,711)	(2,034,262)
Fund balances, beginning of year	1,992,219	1,377,425	3,369,644
Fund balances, end of year	\$ 690,668	\$ 644,714	\$ 1,335,382

CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

<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>
Highway Planning and Construction Cluster			
Department of Transportation			
Highway Planning and Construction (Passed through Kentucky Transportation Cabinet)	20.205	PO2-628-1500000932	35,872
Recreational Trails Program (Passed through Kentucky Department for Local Government)	20.219		<u>227,202</u>
			263,074
Department of Housing and Urban Development			
Community Development Block Grants / Entitlement Grants	14.218	B11-MC-210002 B12-MC-210002 B12-MC-210002	4,982 250,780 <u>63,324</u>
			319,086
Community Development Block Grants - Section 108 Loan Guarantees	14.248	B-10-MC-21-0002	736,212 *
Home Investment Partnerships Program (Passed through Kentucky Housing Corp.)	14.239	GF14-0351-02	63,000
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-10-SP-KY0104	317,772 *
Department of Homeland Security			
Homeland Security Grant Program (Passed through Kentucky Office of Homeland Security)	97.067	PO2-094-1300002975-1	14,000
Department of Transportation			
State and Community Highway Safety (Passed through Kentucky Transportation Cabinet)	20.600	PO2-625-1300001545-1 PO2-625-1400000875-1	13,570 <u>14,327</u>
			27,897
Department of Justice			
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		12,797
Bulletproof Vest Partnership Program	16.607		<u>12,510</u>
Total Federal Expenditures			<u>\$ 1,766,348</u>

*Denotes major program

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2014

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, 2014. 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>\$ 40,625</u>



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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, 2014, and the related notes to the financial statements, which collectively comprise the City of Hopkinsville, Kentucky's basic financial statements and have issued our report thereon dated January 26, 2015.

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*.

Purpose of this Report

This purpose of this report is 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.

York, Neel + Co. - Hopkinsville, KY

Hopkinsville, Kentucky
January 26, 2015



& CO. - HOPKINSVILLE LLP

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**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, 2014. 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 Surface and Storm Water Utility (a discretely presented component unit), which received \$680,886 in federal awards which is not included in the schedule during the year ended June 30, 2014. 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, 2014.

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. 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 26, 2015

**CITY OF HOPKINSVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

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: Unmodified

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>
14.248	Department of Housing and Urban Development – Community Development Block Grants – Section 108 Loan Guarantees
14.251	Department of Housing and Urban Development – Economic Development Initiative – Special Project

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, 2014

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