

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



**For the Year Ended  
June 30, 2018**

**CITY OF HOPKINSVILLE  
HOPKINSVILLE, KENTUCKY**

**TABLE OF CONTENTS**

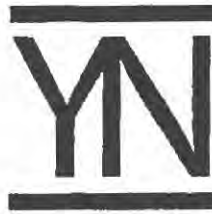
	<u>PAGE</u>
Table of Contents	i-iii
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-17
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	18-19
Statement of Activities	20
Fund Financial Statements:	
Balance Sheet – Governmental Funds	21
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	22
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
Statement of Net Position – Proprietary Funds	25
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds	27
Statement of Net Position – Fiduciary Funds	28
Statement of Changes in Net Position – Fiduciary Funds	29
Statement of Net Position – Component Units	30-31
Statement of Activities – Component Units	32
Notes to the Basic Financial Statements	33-108

**TABLE OF CONTENTS, continued**

<b>Required Supplementary Information:</b>	
Schedule of City of Hopkinsville's Proportionate Share of the Net Pension Liability (CERS)	109
Schedule of Component Units' Proportionate Share of the Net Pension Liability (CERS)	110
Schedule of City of Hopkinsville's Pension Contributions (CERS)	111
Schedule of Component Units' Pension Contributions (CERS)	112
Schedule of Changes in the Net Pension Liability and Related Ratios – Policemen's and Firefighter's Pension Fund	113
Schedule of Contributions – Policemen's and Firefighter's Pension Fund	114
Schedule of Investment Return – Policemen's and Firefighter's Pension Fund	115
Schedule of City of Hopkinsville's Proportionate Share of the Net OPEB Liability (CERS)	116
Schedule of Component Units' Proportionate Share of the Net OPEB Liability (CERS)	117
Schedule of City of Hopkinsville's OPEB Contributions (CERS)	118
Schedule of Component Units' OPEB Contributions (CERS)	119
Budgetary Comparison Schedule – General Fund	120
Notes to Required Supplementary Information (RSI) on Budgetary Accounting and Control	121
Note to Budgetary Comparison Schedule – General Fund	122
<b>Combining Nonmajor Fund Financial Statements:</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	123
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	124
Combining Balance Sheet – Nonmajor Special Revenue Funds	125
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds	126

**TABLE OF CONTENTS, continued**

Combining Nonmajor Fund Financial Statements, continued:	
Budgetary Comparison Schedule – Municipal Road Aid Special Revenue Fund	127
Combining Balance Sheet – Nonmajor Capital Projects Funds	128
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Capital Projects Funds	129
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	130-131



YORK, NEEL & ASSOCIATES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

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, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Hopkinsville, Kentucky'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.

### ***Auditors' 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

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 of Hopkinsville, Kentucky, as of June 30, 2018, 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 discussed in Note 1 to the financial statements, during the year ended June 30, 2018, the City of Hopkinsville, Kentucky adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASBS No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Our opinions are not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, OPEB schedules, and budgetary comparison information on pages 4-17, 109-115, 116-119, and 120-122, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hopkinsville, Kentucky's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The combining nonmajor fund financial statements 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 combining nonmajor fund financial statements 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 8, 2019, 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 solely 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 the effectiveness of the City of Hopkinsville, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hopkinsville, Kentucky's internal control over financial reporting and compliance.

*York, Neel + Associates, LLP*

Hopkinsville, Kentucky  
January 8, 2019

**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Hopkinsville, Kentucky ('City') offers Management's Discussion and Analysis to provide a narrative overview and analysis of City financial activities for fiscal year ended June 30, 2018. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the financial statements (pages 18-32) provided in this document.

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**FINANCIAL HIGHLIGHTS**

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- The City's liabilities and deferred inflows exceeded assets and deferred outflows at the close of the fiscal year by (\$9.4) million (net position). This amount includes \$6.8 million that are restricted to specific projects by laws, regulations, or contractual agreements. A deficit total of (\$44.9) million was unrestricted due to GASB No. 68, *Accounting and Financial Reporting for Pensions*, which was implemented in the fiscal year ended 6/30/2015 and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)*, which was implemented in the fiscal year ended 6/30/2018.
- The City's total net position decreased (\$6.9) million this year, primarily due to changes in the net pension and OPEB liabilities and the related deferred outflows and inflows. Net position of governmental activities decreased (\$6.8) million, and net position of business-type activities decreased by (\$118) thousand.
- As of June 30, 2018, the City's governmental funds reported combined ending fund balances of \$21.0 million, an increase of \$3.9 million from the prior year. Approximately \$9.8 million, 46.60% of this total amount, is unassigned and available for spending.
- The City's governmental activities total debt increased by a net amount of \$3.8 million. Debt increases included \$7.3 million for a bond issue to finance the WINS project, \$500 thousand for new capital leases for a fire truck and street sweeper, and \$2.5 million for new capital leases on behalf of a component unit. Debt decreases included \$1.3 million due to the repayment of debt by the City and \$5.2 million due to the component units' repayment of debt.

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**OVERVIEW OF FINANCIAL STATEMENTS**

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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 capital assets of governmental-type operations are presented. Under prior reporting standards, the infrastructure assets for governmental-type funds were not reported or depreciated.



**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**OVERVIEW OF FINANCIAL STATEMENTS, continued**

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**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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these 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 Stormwater Utility. Financial information for the component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 18-20 of this report.

**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:

CITY OF HOPKINSVILLE, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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**OVERVIEW OF FINANCIAL STATEMENTS, continued**

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**Fund Financial Statements, continued**

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 yearend. This information can help the City when it evaluates near-term financing requirements.

The City maintains fourteen (14) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the WINS Construction Fund, which are considered to be major funds. Data from the other twelve (12) 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 the reconciliations on pages 22 and 24.

The basic governmental fund financial statements can be found at pages 21-24 of this report.

Proprietary Funds:

The City maintains two different types of proprietary funds:

**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 stormwater utility services.

**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**OVERVIEW OF FINANCIAL STATEMENTS, continued**

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**Fund Financial Statements, continued**

Proprietary Funds, continued:

**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 25-27 of this report.

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 (Policemen's and Firefighter's Pension Fund) is presented in the Statement of Net Position – Fiduciary Funds and the Statement of Changes in Net Position – Fiduciary Funds. The fiduciary fund financial statements are presented at pages 28-29 of this report.

**Notes to the Basic Financial Statements**

These notes provide additional information crucial to fully understanding data provided in the government-wide and fund financial statements. Notes to the basic financial statements can be found at pages 33-108 of this report.

**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 and other post-employment 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 basic financial statements.

The combining statements referred to earlier in connection with nonmajor 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 123-126 and 128-129 of this report.

**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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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 and deferred outflows less than liabilities and deferred inflows by (\$9.4) million, a decrease of (\$6.9) million over last year. This deficit is due to the implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions*, which was implemented in the fiscal year ended 6/30/2015 and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)*, which was implemented in the fiscal year ended 6/30/2018. Of the (\$9.4) million, \$28.7 million was net investment in capital assets, \$6.8 million was restricted, and (\$44.9) million was unrestricted. Net position of governmental activity funds total (\$12.3) million, with \$25.9 million as net investment in capital assets, \$6.8 million as restricted, and (\$45.0) million as unrestricted. The net position of the City's business-type activities total \$2.9 million. Of that net position total, \$2.8 million was net investment in capital assets with an unrestricted fund balance of \$151 thousand. The unrestricted net position of governmental funds includes fund balances of the General Fund, various special revenue funds, and various capital 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 while business-type activities report a positive balance in the unrestricted portion of net position.

**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued**

**City of Hopkinsville Net Position**

	Governmental Activities		Business-Type Activities		Total	
	As restated		2018	2017	2018	As restated 2017
	2018	2017				
Current and other assets	\$ 48,825,298	\$ 47,323,048	\$ 166,964	\$ 193,018	\$ 48,992,262	\$ 47,516,066
Capital assets	<u>42,930,902</u>	<u>40,189,701</u>	<u>2,752,495</u>	<u>2,842,302</u>	<u>45,683,397</u>	<u>43,032,003</u>
Total assets	<u>\$ 91,756,200</u>	<u>\$ 87,512,749</u>	<u>\$ 2,919,459</u>	<u>\$ 3,035,320</u>	<u>\$ 94,675,659</u>	<u>\$ 90,548,069</u>
Deferred outflows of resources	<u>\$ 24,315,923</u>	<u>\$ 9,243,894</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,315,923</u>	<u>\$ 9,243,894</u>
Long-term liabilities outstanding	\$122,675,304	\$100,863,413	\$ -	\$ -	\$122,675,304	\$100,863,413
Other liabilities	<u>1,446,318</u>	<u>1,150,726</u>	<u>16,047</u>	<u>13,681</u>	<u>1,462,365</u>	<u>1,164,407</u>
Total liabilities	<u>\$124,121,622</u>	<u>\$102,014,139</u>	<u>\$ 16,047</u>	<u>\$ 13,681</u>	<u>\$124,137,669</u>	<u>\$102,027,820</u>
Deferred inflows of resources	<u>\$ 4,232,793</u>	<u>\$ 272,534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,232,793</u>	<u>\$ 272,534</u>
Net position:						
Net investment in capital assets	\$ 25,938,251	\$ 24,728,017	\$ 2,752,495	\$ 2,842,302	\$ 28,690,746	\$ 27,570,319
Restricted	6,816,401	1,334,085	-	-	6,816,401	1,334,085
Unrestricted (deficit)	<u>(45,036,944)</u>	<u>(31,592,132)</u>	<u>150,917</u>	<u>179,337</u>	<u>(44,886,027)</u>	<u>(31,412,795)</u>
Total net position	<u>\$ (12,282,292)</u>	<u>\$ (5,530,030)</u>	<u>\$ 2,903,412</u>	<u>\$ 3,021,639</u>	<u>\$ (9,378,880)</u>	<u>\$ (2,508,391)</u>

**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued**

**Analysis of the City's Operations**

The following table provides a summary of the City's operations for the year ended June 30, 2018. Governmental activities decreased the City's net position by (\$6.8) million, while business-type activities decreased the City's net position by (\$118) thousand.

**City of Hopkinsville – Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	As restated 2017	2018	2017	2018	As restated 2017
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services and sales	\$ 2,147,848	\$ 2,160,439	\$ 293,852	\$ 283,385	\$ 2,441,700	\$ 2,443,824
Operating grants/contributions/interest	7,526,059	5,252,879	-	-	7,526,059	5,252,879
Capital grants/contributions	254,942	556,982	-	-	254,942	556,982
<b>General revenues:</b>						
Property taxes	5,239,771	5,243,966	-	-	5,239,771	5,243,966
Occupational taxes	16,835,340	16,530,486	-	-	16,835,340	16,530,486
Insurance premium tax	4,516,839	4,173,559	-	-	4,516,839	4,173,559
Franchise tax	312,946	287,047	-	-	312,946	287,047
Transient room tax	803,343	513,155	-	-	803,343	513,155
Payment in lieu of taxes	705,336	486,763	-	-	705,336	486,763
Investment income	258,074	113,685	1,303	1,052	259,377	114,737
Gain on sale of capital assets	23,541	1,865	-	-	23,541	1,865
Other	25,862	1,941	-	-	25,862	1,941
<b>Total revenues</b>	<b><u>\$ 38,649,901</u></b>	<b><u>\$ 35,322,767</u></b>	<b><u>\$ 295,155</u></b>	<b><u>\$ 284,437</u></b>	<b><u>\$ 38,945,056</u></b>	<b><u>\$ 35,607,204</u></b>
<b>Expenses:</b>						
General government	\$ 4,791,738	\$ 7,618,002	\$ -	\$ -	\$ 4,791,738	\$ 7,618,002
Public safety	24,011,020	18,567,595	-	-	24,011,020	18,567,595
Public works	4,766,838	7,955,259	-	-	4,766,838	7,955,259
Community development	9,370,638	7,263,035	-	-	9,370,638	7,263,035
Parks and recreation	1,650,727	2,501,167	-	-	1,650,727	2,501,167
Interest on long-term debt	711,202	659,294	-	-	711,202	659,294
Tie Breaker Family Aquatic	-	-	513,382	483,885	513,382	483,885
<b>Total expenses</b>	<b><u>\$ 45,302,163</u></b>	<b><u>\$ 44,564,352</u></b>	<b><u>\$ 513,382</u></b>	<b><u>\$ 483,885</u></b>	<b><u>\$ 45,815,545</u></b>	<b><u>\$ 45,048,237</u></b>
<b>Change in net position before transfers</b>	<b><u>\$ (6,652,262)</u></b>	<b><u>\$ (9,241,585)</u></b>	<b><u>\$ (218,227)</u></b>	<b><u>\$ (199,448)</u></b>	<b><u>\$ (6,870,489)</u></b>	<b><u>\$ (9,441,033)</u></b>
Transfers	(100,000)	(100,000)	100,000	100,000	-	-
<b>Increase (decrease) in net position</b>	<b><u>(6,752,262)</u></b>	<b><u>(9,341,585)</u></b>	<b><u>(118,227)</u></b>	<b><u>(99,448)</u></b>	<b><u>(6,870,489)</u></b>	<b><u>(9,441,033)</u></b>
<b>Net position, beginning, as restated</b>	<b><u>(5,530,030)</u></b>	<b><u>3,811,555</u></b>	<b><u>3,021,639</u></b>	<b><u>3,121,087</u></b>	<b><u>(2,508,391)</u></b>	<b><u>6,932,642</u></b>
<b>Net position, ending</b>	<b><u>\$ (12,282,292)</u></b>	<b><u>\$ (5,530,030)</u></b>	<b><u>\$ 2,903,412</u></b>	<b><u>\$ 3,021,639</u></b>	<b><u>\$ (9,378,880)</u></b>	<b><u>\$ (2,508,391)</u></b>

**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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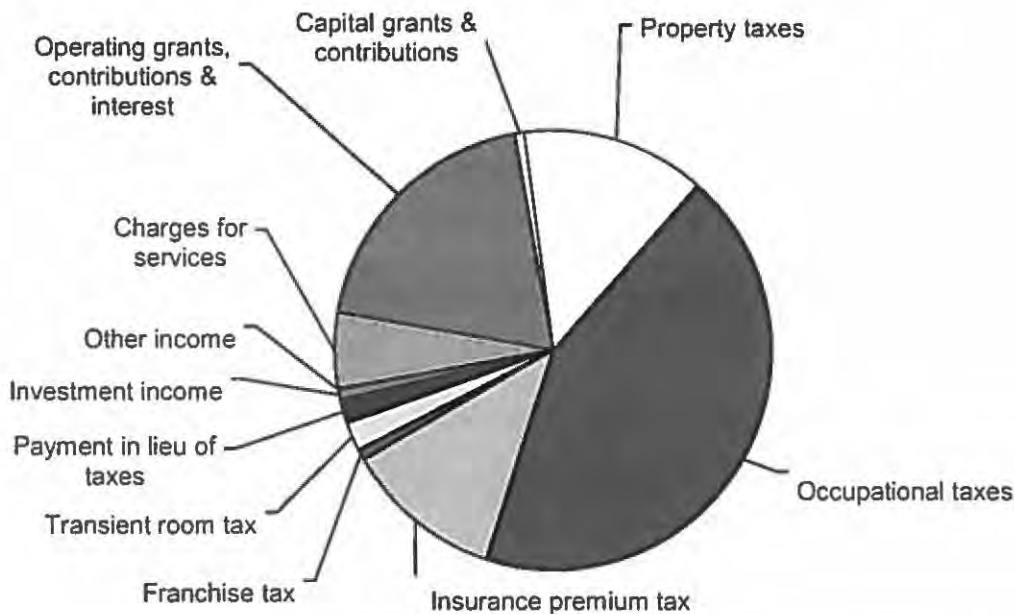
**GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued**

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**Governmental Activities**

Total revenues for the City's governmental activities total \$38.6 million for the year ended June 30, 2018, compared to \$35.3 million last year. Occupational taxes total \$16.8 million or 43.45% of total revenue. The second largest category of government revenues, operating grants/contributions/interest, accounts for \$7.5 million, or 19.47% of revenue. The third largest category of government revenues, property taxes, accounts for \$5.2 million, or 13.56% of total revenues. Insurance premium tax totals \$4.5 million, or 11.69% of total revenue. Miscellaneous sources account for \$26 thousand, or less than 0.01%.

**Revenue by Source – Governmental Activities**



Current year total expenses of the City's governmental activities total \$45.3 million, compared to \$44.6 million last year. This increase in expenses is attributable to the increase in pension and OPEB expenses. Public Safety expenses total \$24.0 million and account for 53.00% of total expenses. The second largest category of expenses, Community Development, totals \$9.4 million and accounts for 20.68% of expenses. General government is the next largest category and totals \$4.8 million, or 10.58% of expenses. Public Works totals \$4.8 million, or 10.58% of expenses.

**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

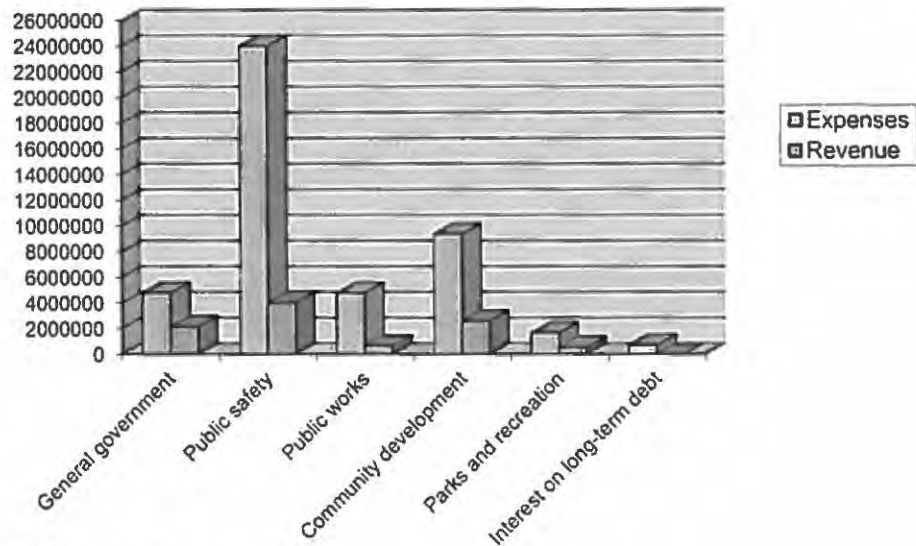
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**GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued**

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**Governmental Activities, continued**

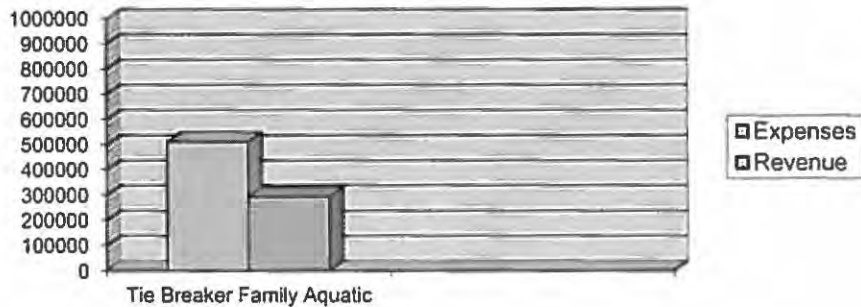
**Expenses and Program Revenues – Governmental Activities**



**Business-Type Activities**

Revenues for business-type activities total \$295 thousand this fiscal year compared to \$284 thousand last year. Of this total, \$294 thousand or 99.56% was from charges for services and sales. Expenses for business-type activities total \$513 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**





**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

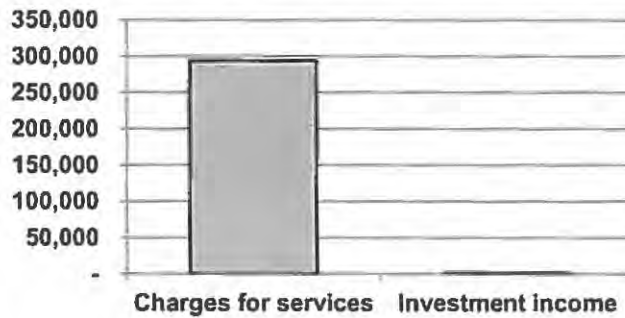
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**GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued**

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**Business-Type Activities, continued**

**Revenue by Source – Business-Type Activities**

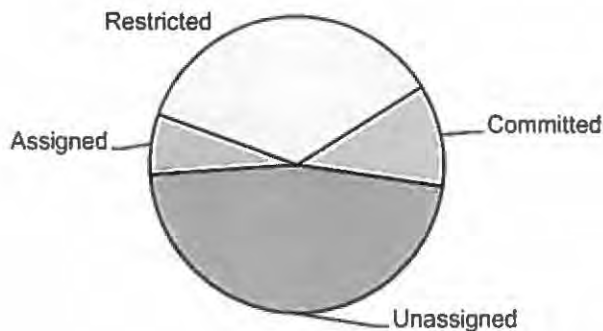


**Governmental Funds**

At the end of the current fiscal year, the City governmental funds reported combined ending fund balances of \$21.0 million, an increase of \$3.9 million from the prior year. Approximately 46.60% of the total amount of governmental fund balance, \$9.8 million, is unassigned fund balance, which is available for spending at the government's discretion. Approximately 35.57%, \$7.5 million, is restricted fund balance. Approximately 6.66%, \$1.4 million, has been encumbered or is assigned. The remainder of fund balance, \$2.3 million, is committed to indicate it is not available for new spending.

The total ending fund balance of governmental funds for the current year shows an increase of \$3.9 million from the prior year. This increase is primarily the result of an increase in total revenues of \$3.2 million compared to the prior year.

**Ending Fund Balances – Governmental Funds**



**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued**

---

**Governmental Funds, continued**

The General Fund is the chief operating fund of the City. At the end of the 2017-2018 fiscal year, the total fund balance in the General Fund was \$12.1 million, which represents a decrease of (\$500) thousand from the prior year. Of the total fund balance in the General Fund, unassigned fund balance was \$9.8 million. 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 27.11% of total general fund expenditures of \$36.1 million, and total fund balance represents 33.50% of total general fund expenditures.

Taxes in General Fund increased \$180 thousand, which represents a 3.18% increase over the prior year, due to the increase in the collection of property taxes and payment in lieu of taxes being paid on a timely basis. Licenses and permits increased \$800 thousand, which represents a 3.42% increase over prior year and indicates an improvement in the economy. The unemployment rate for Hopkinsville decreased from 7.9% to 7.2% from June 30, 2017 to June 30, 2018.

General government expenditures increased \$331 thousand; public safety expenditures increased \$233 thousand; and public works increased \$347 thousand. Community development expenditures increased \$2.0 million, which is due to additional community projects during the year.

**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 equals \$2.9 million as of June 30, 2018, compared to \$3.0 million last year.

The Tie Breaker Family Aquatic Park has total net position of \$2.9 million, representing a decrease of (\$118) thousand from prior year. Of the total net position, \$2.8 million was net investment in capital assets and \$151 thousand was unrestricted. This decrease is primarily the result of events and programs described within the analysis of the City's business-type activities.

**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

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Over the course of the current fiscal year, the City Council approved revisions of the General Fund's budget in order to make adjustments to and add projects that were not anticipated when the budget was first adopted. The total expenditures budget increased \$567 thousand or 1.80% during the year. The changes in appropriations can be briefly summarized as follows:

- \$ 36,400 increase in general administrative
- \$ (9,923) decrease in tax department
- \$ (56,155) decrease in information technology
- \$ 5,300 increase in legislative
- \$ 46,494 increase in police
- \$ - no change in emergency communications
- \$ (35,031) decrease in fire
- \$ - no change in other public safety
- \$ - no change in public works administrative
- \$ (11,315) decrease in street
- \$ - no change in service center
- \$ - no change in other public works
- \$ 372,565 increase in community development
- \$ 53,208 increase in parks and recreation
- \$ - no change in debt service principal
- \$ 2,463 increase in interest and finance charges
- \$ 162,927 increase in capital outlays

The net increase to appropriations of \$567 thousand was to be budgeted from additional projected revenue. During the year, however, overall 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 (\$952) thousand decrease in actual appropriations in comparison to the budgeted appropriations. The most significant differences were due to lower than budgeted wages and related labor expenses in various departments and reclassifications for capital outlays.

Additional information on the City's budgetary comparison for the General Fund can be found on pages 120-122.

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**CAPITAL ASSETS**

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The City's total investment in capital assets is \$45.7 million (net of accumulated depreciation) as of June 30, 2018, which represents an increase of \$2.7 million over the prior year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, park facilities, roads, highways, bridges, and construction in progress. For governmental activities, investment in capital assets totaled \$42.9 million, an increase of \$2.7 million. For business-type activities, investment in capital assets totaled \$2.8 million, a decrease of (\$90) thousand.

**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CAPITAL ASSETS, continued**

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,180,850	\$ 1,933,350	\$ -	\$ -	\$ 2,180,850	\$ 1,933,350
Construction in progress	7,128,935	5,102,785	-	-	7,128,935	5,102,785
Buildings and improvements	15,593,594	15,391,717	2,718,997	2,815,174	18,312,591	18,206,891
Equipment	3,023,375	3,081,157	33,498	27,128	3,056,873	3,108,285
Infrastructure	7,033,756	7,026,369	-	-	7,033,756	7,026,369
Land improvements	6,001,440	6,234,993	-	-	6,001,440	6,234,993
Vehicles	1,968,952	1,419,330	-	-	1,968,952	1,419,330
<b>Total</b>	<b><u>\$42,930,902</u></b>	<b><u>\$40,189,701</u></b>	<b><u>\$2,752,495</u></b>	<b><u>\$ 2,842,302</u></b>	<b><u>\$45,683,397</u></b>	<b><u>\$43,032,003</u></b>

Additional information on City capital assets can be found in Note 4 in the footnotes at pages 56-58.

**DEBT ADMINISTRATION**

At June 30, 2018, the City had \$53.6 million in outstanding notes and bonds compared to \$49.8 million at June 30, 2017, an increase of \$3.8 million. The City issued a new bond for \$7.3 million and capital leases of \$500 thousand. The City, on behalf of one component unit, also entered into multiple capital leases for various solid waste trucks of \$2.5 million. The following table illustrates the changes in outstanding notes, bonds and capital leases:

	Governmental Activities	
	2018	2017
General obligation bonds & leases	\$ 49,966,797	\$ 45,905,397
Capital leases	2,582,625	2,792,611
Note payable	<u>1,050,000</u>	<u>1,125,000</u>
<b>Total</b>	<b><u>\$53,599,422</u></b>	<b><u>\$49,823,008</u></b>

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 \$201,455,766. The City's latest bond rating is AA-.

Additional information on the City's long-term debt can be found in Note 9 in the footnotes at pages 85-97.

**CITY OF HOPKINSVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**ECONOMIC FACTORS**

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**Unemployment Rate**

The unemployment rate for the City of Hopkinsville (Christian County) as of June 2018 was 7.2%. This rate compares unfavorably to state and federal unemployment rates of 4.2% and 4.0%, respectively.

**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 2017-2018 budget for the City of Hopkinsville was prepared. The beginning general fund balance for fiscal year 2017-2018 was \$12.6 million, and there is an ending fund balance of \$12.1 million. At the present time, the City is in good financial condition.

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**REQUESTS FOR INFORMATION**

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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, Chief Financial Officer, City of Hopkinsville, 715 South Virginia Street, Hopkinsville, Kentucky 42240. Complete financial statements for the Hopkinsville Water Environment Authority component unit may be obtained at the entity's administrative office located at 401 East 9<sup>th</sup> Street, Hopkinsville, Kentucky 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, Kentucky 42240. Complete financial statements for the Hopkinsville Surface and Stormwater Utility component unit may be obtained at the entity's administrative office located at 715 South Virginia Street, Hopkinsville, Kentucky 42240.

City of Hopkinsville, Kentucky  
Statement of Net Position  
June 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Pooled cash and cash equivalents	\$ 11,575,899	\$ -	\$ 11,575,899	\$ -
Non-pooled cash and cash equivalents	1,117,581	113,704	1,231,285	11,364,709
Investments	37,146	-	37,146	-
Accounts receivable	-	-	-	1,909,867
Taxes receivable	2,932,257	-	2,932,257	-
Other current assets	-	-	-	41,304
Notes receivable	305,643	-	305,643	176,855
Other receivables	199,000	-	199,000	5,866,493
Due from component unit	32,690	-	32,690	-
Inventory	-	-	-	258,315
Prepaid items	-	53,260	53,260	33,626
Accrued interest on note receivable	-	-	-	363
Restricted assets:				
Due from Component Units				
Due within one year	3,511,256	-	3,511,256	-
Due beyond one year	22,390,982	-	22,390,982	-
Temporarily restricted:				
Cash and cash equivalents	6,051,110	-	6,051,110	2,316,564
Investments	230,296	-	230,296	246,684
Permanently restricted assets:				
Cash and cash equivalents	73,324	-	73,324	-
Investments	368,114	-	368,114	-
Capital Assets				
Land and construction in progress	9,309,785	-	9,309,785	14,196,465
Capital assets, net of accumulated depreciation	33,621,117	2,752,495	36,373,612	114,451,905
Total capital assets	<u>42,930,902</u>	<u>2,752,495</u>	<u>45,683,397</u>	<u>128,648,370</u>
Total assets	<u>91,756,200</u>	<u>2,919,459</u>	<u>94,675,659</u>	<u>150,863,150</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows from pension	17,542,121	-	17,542,121	5,117,697
Deferred outflows from OPEB	6,727,384	-	6,727,384	1,246,816
Deferred refunding costs	46,418	-	46,418	491,351
Total deferred outflows of resources	<u>24,315,923</u>	<u>-</u>	<u>24,315,923</u>	<u>6,855,864</u>
 Total assets and deferred outflows of resources	 <u>\$ 116,072,123</u>	 <u>\$ 2,919,459</u>	 <u>\$ 118,991,582</u>	 <u>\$ 157,719,014</u>

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

**City of Hopkinsville, Kentucky**  
**Statement of Net Position, continued**  
**June 30, 2018**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Accounts payable	\$ 407,237	\$ 16,047	\$ 423,284	\$ 576,244
Accrued salaries	501,529	-	501,529	132,023
Claims payable	226,178	-	226,178	-
Accrued interest	310,374	-	310,374	438,054
Transient bond deposits	1,000	-	1,000	-
Construction retainage payable	-	-	-	132,665
Customer deposits	-	-	-	112,837
Due to primary government:				
Due within one year	-	-	-	3,511,256
Due beyond one year	-	-	-	22,390,982
Noncurrent liabilities:				
Due within one year	5,127,863	-	5,127,863	2,394,205
Due beyond one year	114,850,930	-	114,850,930	69,354,540
Compensated absences:				
Due within one year	107,860	-	107,860	255,639
Due beyond one year	2,588,651	-	2,588,651	637,264
Total liabilities	<u>124,121,622</u>	<u>16,047</u>	<u>124,137,669</u>	<u>99,935,709</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred revenue - USACE	-	-	-	6,917,828
Deferred inflows from pension	3,155,857	-	3,155,857	1,211,634
Deferred inflows from OPEB	1,076,936	-	1,076,936	236,276
Total deferred inflows of resources	<u>4,232,793</u>	<u>-</u>	<u>4,232,793</u>	<u>8,365,738</u>
<b>NET POSITION</b>				
Net investment in capital assets	25,938,251	2,752,495	28,690,746	55,017,474
Restricted for:				
Capital projects	6,039,533	-	6,039,533	-
Debt reserves	-	-	-	2,031,784
Perpetual care:				
Expendable	335,430	-	335,430	-
Nonexpendable	441,438	-	441,438	-
Unrestricted (deficit)	<u>(45,036,944)</u>	<u>150,917</u>	<u>(44,886,027)</u>	<u>(7,631,691)</u>
Total net position	<u>(12,282,292)</u>	<u>2,903,412</u>	<u>(9,378,880)</u>	<u>49,417,567</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 116,072,123</u>	 <u>\$ 2,919,459</u>	 <u>\$ 118,991,582</u>	 <u>\$ 157,719,014</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, 2018**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total		
<b>PRIMARY GOVERNMENT</b>									
Governmental activities:									
General government	\$ (4,791,738)	\$ 1,896,667	\$ 239,500	\$ -	\$ (2,655,571)	\$ -	\$ (2,655,571)	\$ -	
Public safety	(24,011,020)	101,206	3,923,133	2,870	(19,983,811)	-	(19,983,811)	-	
Public works	(4,766,838)	-	646,578	-	(4,120,260)	-	(4,120,260)	-	
Community development	(9,370,638)	-	2,338,152	243,022	(6,789,464)	-	(6,789,464)	-	
Parks and recreation	(1,650,727)	149,975	378,696	9,050	(1,113,006)	-	(1,113,006)	-	
Interest on long-term debt	(711,202)	-	-	-	(711,202)	-	(711,202)	-	
<b>Total governmental activities</b>	<b>(45,302,163)</b>	<b>2,147,848</b>	<b>7,526,059</b>	<b>254,942</b>	<b>(35,373,314)</b>	<b>-</b>	<b>(35,373,314)</b>	<b>-</b>	
Business-type activities:									
Tie Breaker Family Aquatic	(513,382)	293,852	-	-	-	(219,530)	(219,530)	-	
<b>Total business-type activities</b>	<b>(513,382)</b>	<b>293,852</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(219,530)</b>	<b>(219,530)</b>	<b>-</b>	
<b>Total - primary government</b>	<b>\$ (45,815,545)</b>	<b>\$ 2,441,700</b>	<b>\$ 7,526,059</b>	<b>\$ 254,942</b>	<b>(35,373,314)</b>	<b>(219,530)</b>	<b>(35,592,844)</b>	<b>-</b>	
<b>COMPONENT UNITS</b>									
Hopkinsville Water Environment Authority	\$ (17,135,626)	\$ 16,416,335	\$ 109,440	\$ 61,777	-	-	-	(548,074)	
Hopkinsville Solid Waste Enterprise	(9,773,164)	7,829,720	-	-	-	-	-	(1,943,444)	
Hopkinsville Surface and Stormwater Utility	(1,535,895)	1,172,919	326,956	1,022,494	-	-	-	986,474	
<b>Total - component units</b>	<b>\$ (28,444,685)</b>	<b>\$ 25,418,974</b>	<b>\$ 436,396</b>	<b>\$ 1,084,271</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,505,044)</b>	
					<b>GENERAL REVENUES</b>				
					5,239,771	-	5,239,771	-	
					16,835,340	-	16,835,340	-	
					4,516,839	-	4,516,839	-	
					312,946	-	312,946	-	
					803,343	-	803,343	-	
					705,336	-	705,336	-	
					258,074	1,303	259,377	277,548	
					23,541	-	23,541	102,763	
					25,862	-	25,862	395,932	
					<u>28,721,052</u>	<u>1,303</u>	<u>28,722,355</u>	<u>776,243</u>	
					Transfers	(100,000)	100,000	-	
					<u>Total general revenues and transfers</u>	<u>28,621,052</u>	<u>101,303</u>	<u>28,722,355</u>	<u>776,243</u>
					Change in net position	(6,752,262)	(118,227)	(6,870,489)	(728,801)
					Net position, beginning of year, restated	(5,530,030)	3,021,639	(2,508,391)	50,146,368
					<u>Net position, end of year</u>	<u>\$ (12,282,292)</u>	<u>\$ 2,903,412</u>	<u>\$ (9,378,880)</u>	<u>\$ 49,417,567</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, 2018**

	<u>General</u>	<u>WINS Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Pooled cash and cash equivalents	\$ 9,857,550	\$ -	\$ 1,751,124	\$ 11,608,674
Non-pooled cash and cash equivalents	132,912	5,734,663	582,505	6,450,080
Investments	37,146	-	598,410	635,556
Taxes receivable	2,719,725	-	-	2,719,725
Loans receivable	-	-	305,643	305,643
Due from component unit	32,690	-	-	32,690
Other receivables	-	-	199,000	199,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 12,780,023</u>	<u>\$ 5,734,663</u>	<u>\$ 3,436,682</u>	<u>\$ 21,951,368</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 181,380	\$ 242,927	\$ 15,704	\$ 440,011
Accrued salaries	501,529	-	-	501,529
Transient bond deposits	1,000	-	-	1,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>683,909</u>	<u>242,927</u>	<u>15,704</u>	<u>942,540</u>
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	-
Restricted	-	4,770,503	2,702,507	7,473,010
Committed	1,979,695	-	366,840	2,346,535
Assigned	326,927	721,233	351,631	1,399,791
Unassigned	9,789,492	-	-	9,789,492
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>12,096,114</u>	<u>5,491,736</u>	<u>3,420,978</u>	<u>21,008,828</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balances	<u>\$ 12,780,023</u>	<u>\$ 5,734,663</u>	<u>\$ 3,436,682</u>	<u>\$ 21,951,368</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**  
**June 30, 2018**

Total fund balance - total governmental funds	\$ 21,008,828
Amounts reported for governmental activities in the statement of net position are different because:	
Taxes receivable based on availability criteria; \$6,694 property taxes, \$188,326 insurance premium taxes, and \$17,511 franchise taxes.	212,531
Deferred outflows of resources - bond refinancing charges, amortizable over life of debt	46,418
Deferred outflows and inflows related to the net pension liability are not due and payable in the current period and are not reported in individual funds. See notes 6 & 9 to financial statements for detail.	14,386,264
Deferred outflows and inflows related to the net OPEB liability are not due and payable in the current period and are not reported in individual funds. See notes 6 & 9 to financial statements for detail.	5,650,448
Capital assets of \$79,425,632, net of accumulated depreciation of (\$36,494,730), are not financial resources and, therefore, are not reported in the funds. See note 4 to financial statements for detail.	42,930,902
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 \$565,757 are included in governmental activities in the statement of net position.	565,757
Long-term liabilities are not due and payable in the current period and are not reported in the funds. See note 9 to financial statements for detail.	(122,675,304)
Receivables from component units for long-term debt where the City is contingently liable are not reported in the funds.	25,902,238
Accrued interest	<u>(310,374)</u>
Net position of governmental activities	<u>\$ (12,282,292)</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 Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

	General	WINS Construction	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 5,978,431	\$ -	\$ -	\$ 5,978,431
Licenses and permits	24,330,619	-	-	24,330,619
Fines and forfeits	101,206	-	-	101,206
Intergovernmental	3,186,337	2,000,000	1,498,443	6,684,780
Investment income	188,256	57,299	9,735	255,290
Donations	28,847	123,750	-	152,597
Other revenue	1,036,277	-	130,643	1,166,920
<b>Total revenues</b>	<b>34,849,973</b>	<b>2,181,049</b>	<b>1,638,821</b>	<b>38,669,843</b>
<b>EXPENDITURES</b>				
Current:				
General government	3,956,654	-	44,386	4,001,040
Public safety	16,578,930	-	676,647	17,255,577
Public works	5,483,602	-	167,603	5,651,205
Community development	6,933,814	1,747,493	138,428	8,819,735
Parks and recreation	1,210,173	-	8,945	1,219,118
Debt service:				
Principal	1,111,000	-	175,113	1,286,113
Interest	668,914	-	43,999	712,913
Expenditures	-	177,371	9,350	186,721
Capital outlay	168,798	2,989,711	2,742,805	5,901,314
<b>Total expenditures</b>	<b>36,111,885</b>	<b>4,914,575</b>	<b>4,007,276</b>	<b>45,033,736</b>
Excess of revenues over (under) expenditures	(1,261,912)	(2,733,526)	(2,368,455)	(6,363,893)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	-	-	1,651,449	1,651,449
Transfers to other funds	(1,751,134)	-	(315)	(1,751,449)
Discount on bond issue	-	(26,655)	-	(26,655)
Issuance of long-term debt	2,517,984	7,335,000	507,207	10,360,191
<b>Total other financing sources (uses)</b>	<b>766,850</b>	<b>7,308,345</b>	<b>2,158,341</b>	<b>10,233,536</b>
Net change in fund balances	(495,062)	4,574,819	(210,114)	3,869,643
Fund balances, beginning of year	12,591,176	916,917	3,631,092	17,139,185
Fund balances, end of year	\$ 12,096,114	\$ 5,491,736	\$ 3,420,978	\$ 21,008,828

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 Year Ended June 30, 2018**

Net change in fund balances - total governmental funds	\$ 3,869,643
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 \$5,901,314 exceeded depreciation of (\$3,152,818) in the current period.	2,748,496
Issuance of debt is revenue in the governmental funds, but the debt increases long-term liabilities in the statement of net position.	(7,815,552)
Certain imposed nonexchange revenues were not recognized in the governmental funds because they were not available at June 30, 2018. The change in this account balance is a reconciling item for this statement.	(15,427)
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 \$100,960 is reported with governmental activities.	100,960
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,286,113
Changes in net pension and OPEB liability obligations and related deferred outflows and inflows of resources are an obligation not payable from current year resources and are not reported as an expenditure of the current year. In the statement of activities, these costs represent expenses of the current year.	(6,934,275)
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 \$30,836 with an overall gain of \$23,541.	(7,295)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. These include the decrease in compensated absences of \$13,364, increase in accrued interest of (\$10,683), amortization of deferred charges of (\$2,799), and amortization of debt premium/(discount) net of \$15,193.	<u>15,075</u>
Change in net position of governmental activities	\$ <u>(6,752,262)</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, 2018**

	Business-type Activities Enterprise Fund Tie Breaker Family Aquatic	Governmental Activities Internal Service Fund
<b>ASSETS</b>		
Current assets:		
Pooled cash and cash equivalents	\$ -	\$ -
Non-pooled cash and cash equivalents	113,704	791,935
Accounts receivable	-	-
Prepaid expenses	53,260	-
Total current assets	166,964	791,935
Noncurrent assets:		
Capital assets:		
Land and construction in progress	-	-
Capital assets, net of accumulated depreciation	2,752,495	-
Total noncurrent assets	2,752,495	-
Total assets	\$ 2,919,459	\$ 791,935
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 16,047	\$ -
Incurred, not yet reported	-	226,178
Total current liabilities	16,047	226,178
Noncurrent liabilities:		
Total noncurrent liabilities	-	-
Total liabilities	16,047	226,178
<b>NET POSITION</b>		
Net investment in capital assets	2,752,495	-
Unrestricted	150,917	565,757
Total net position	2,903,412	565,757
Total liabilities and net position	\$ 2,919,459	\$ 791,935

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, 2018**

	Business-type Activities <u>Enterprise Fund</u> Tie Breaker <u>Family Aquatic</u>	Governmental Activities <u>Internal Service Fund</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 293,852	\$ -
Employee contributions	-	487,408
Employer contributions	-	2,337,115
Other revenue	-	-
	<u>293,852</u>	<u>2,824,523</u>
Total operating revenues		
<b>OPERATING EXPENSES</b>		
Management contract	210,532	-
Maintenance	37,418	-
Marketing	36,741	-
Operations	12,862	-
Utilities	96,271	-
Administrative	-	185,276
Supplies	10,876	-
Depreciation	108,682	-
Claims expense	-	2,541,069
	<u>513,382</u>	<u>2,726,345</u>
Total operating expenses		
Operating income (loss)	<u>(219,530)</u>	<u>98,178</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	1,303	2,782
Gain (loss) on sale of equipment	-	-
	<u>1,303</u>	<u>2,782</u>
Total nonoperating revenues (expenses)		
Income (loss) before transfers	<u>(218,227)</u>	<u>100,960</u>
Transfers in	100,000	-
Transfers out	-	-
	<u>100,000</u>	<u>-</u>
Total transfers and capital contributions		
Change in net position	(118,227)	100,960
Net position, beginning of year	<u>3,021,639</u>	<u>464,797</u>
Net position, end of year	<u>\$ 2,903,412</u>	<u>\$ 565,757</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, 2018**

	Business-type Activities <u>Enterprise Fund</u> Tie Breaker <u>Family Aquatic</u>	Governmental Activities <u>Internal Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 293,852	\$ 2,824,523
Other cash receipts	-	-
Cash payments to suppliers	(455,592)	(185,276)
Cash payments for claims	<u>-</u>	<u>(2,376,492)</u>
Net cash provided by (used in) operating activities	<u>(161,740)</u>	<u>262,755</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in	100,000	-
Transfers out	<u>-</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>100,000</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of capital assets	-	-
Payments for capital acquisitions	<u>(18,877)</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(18,877)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	<u>1,303</u>	<u>2,782</u>
Net cash provided by (used in) investing activities	<u>1,303</u>	<u>2,782</u>
Net increase (decrease) in cash and cash equivalents	(79,314)	265,537
Cash and cash equivalents, beginning of year	<u>193,018</u>	<u>526,398</u>
Cash and cash equivalents, end of year	<u>\$ 113,704</u>	<u>\$ 791,935</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (219,530)	\$ 98,178
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	108,682	-
(Increase) decrease in assets:		
Accounts receivable	-	-
Prepaid expense	(53,260)	-
Increase (decrease) in liabilities:		
Accounts payable	2,368	-
Accrued liabilities	<u>-</u>	<u>164,577</u>
Net cash provided by (used in) operating activities	<u>\$ (161,740)</u>	<u>\$ 262,755</u>

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

**City of Hopkinsville, Kentucky  
Policemen's and Firefighter's Pension Fund  
Statement of Net Position  
Fiduciary Funds  
June 30, 2018**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 267,971
Interest and dividends receivable	-
Investments, at fair value	<u>761,346</u>
Total assets	<u>\$ 1,029,317</u>
<b>LIABILITIES</b>	
Accounts payable	<u>\$ -</u>
Total liabilities	<u>-</u>
<b>NET POSITION</b>	
Net position restricted for pensions	<u>\$ 1,029,317</u>

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



**City of Hopkinsville, Kentucky  
Policemen's and Firefighter's Pension Fund  
Statement of Changes in Net Position  
Fiduciary Funds  
For the Year Ended June 30, 2018**

**ADDITIONS**

Contributions:	
Employer	\$ 325,000
Investment earnings:	
Net increase (decrease) in fair value of investments	(20,427)
Interest	21,309
Other	<u>-</u>
Net investment earnings	<u>882</u>
Total additions	325,882

**DEDUCTIONS**

Benefits paid	266,452
Administrative expenses	<u>15,013</u>
Total deductions	<u>281,465</u>
Net increase (decrease) in net position	44,417
Net position, beginning of year	<u>984,900</u>
Net position, end of year	<u>\$ 1,029,317</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, 2018

	Major			Total
	Hopkinsville Water Environment Authority	Hopkinsville Solid Waste Enterprise	Hopkinsville Surface and Stormwater Utility	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 8,190,569	\$ 2,424,329	\$ 749,811	\$ 11,364,709
Accounts receivable	1,094,691	727,349	87,827	1,909,867
Inventory	258,315	-	-	258,315
Prepaid insurance	33,626	-	-	33,626
Accrued interest on note receivable	363	-	-	363
Other current assets	-	41,304	-	41,304
Notes receivable	176,855	-	-	176,855
Other receivables	4,411,310	-	1,455,183	5,866,493
Restricted assets:				
Cash and cash equivalents	2,031,784	284,780	-	2,316,564
Investments	-	246,684	-	246,684
Capital assets, net of depreciation:				
Land and construction in progress	10,311,256	2,610,083	1,275,126	14,196,465
Depreciable capital assets	101,733,603	5,719,120	6,999,182	114,451,905
Net capital assets	<u>112,044,859</u>	<u>8,329,203</u>	<u>8,274,308</u>	<u>128,648,370</u>
<b>Total assets</b>	<u>128,242,372</u>	<u>12,053,649</u>	<u>10,567,129</u>	<u>150,863,150</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows from pension	2,977,411	2,140,286	-	5,117,697
Deferred outflows from OPEB	749,997	496,819	-	1,246,816
Deferred refunding costs	491,351	-	-	491,351
<b>Total deferred outflows of resources</b>	<u>4,218,759</u>	<u>2,637,105</u>	<u>-</u>	<u>6,855,864</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 132,461,131</u>	<u>\$ 14,690,754</u>	<u>\$ 10,567,129</u>	<u>\$ 157,719,014</u>

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

**City of Hopkinsville, Kentucky**  
**Statement of Net Position, continued**  
**Component Units**  
**June 30, 2018**

	Major			Total
	Hopkinsville Water Environment Authority	Hopkinsville Solid Waste Enterprise	Hopkinsville Surface and Stormwater Utility	
<b>LIABILITIES</b>				
Current portion of long-term debt	\$ 2,394,205	\$ -	\$ -	\$ 2,394,205
Payable to City of Hopkinsville, current portion	1,655,000	1,691,256	165,000	3,511,256
Customer deposits	112,837	-	-	112,837
Accrued interest	389,587	-	48,467	438,054
Accounts payable	254,263	260,703	61,278	576,244
Accrued salaries	43,850	88,173	-	132,023
Accrued compensated absences, current portion	185,662	69,977	-	255,639
Construction retainage payable	132,665	-	-	132,665
Long-term liabilities:				
Compensated absences, net of current portion	240,727	396,537	-	637,264
Revenue bonds payable, net of current portion	2,358,997	-	-	2,358,997
Revenue leases - Planters, net of current portion	3,427,599	-	-	3,427,599
KIA - loans payable, net of current portion	39,906,543	-	-	39,906,543
Payable to City of Hopkinsville, net of current portion	17,790,815	766,803	3,833,364	22,390,982
Net pension liability	7,962,547	5,176,782	-	13,139,329
Net OPEB liability	2,734,769	1,777,987	-	4,512,756
Accrued landfill closure costs	-	6,009,316	-	6,009,316
<b>Total liabilities</b>	<b><u>79,590,066</u></b>	<b><u>16,237,534</u></b>	<b><u>4,108,109</u></b>	<b><u>99,935,709</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred revenue - USACE	6,917,828	-	-	6,917,828
Deferred inflows from pension	734,261	477,373	-	1,211,634
Deferred inflows from OPEB	143,185	93,091	-	236,276
<b>Total deferred inflows of resources</b>	<b><u>7,795,274</u></b>	<b><u>570,464</u></b>	<b><u>-</u></b>	<b><u>8,365,738</u></b>
<b>NET POSITION</b>				
Net investment in capital assets	44,870,386	5,871,144	4,275,944	55,017,474
Restricted:				
Capital projects	-	-	-	-
Debt reserves	2,031,784	-	-	2,031,784
Unrestricted (deficit)	<u>(1,826,379)</u>	<u>(7,988,388)</u>	<u>2,183,076</u>	<u>(7,631,691)</u>
<b>Total net position</b>	<b><u>45,075,791</u></b>	<b><u>(2,117,244)</u></b>	<b><u>6,459,020</u></b>	<b><u>49,417,567</u></b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b><u>\$ 132,461,131</u></b>	<b><u>\$ 14,690,754</u></b>	<b><u>\$ 10,567,129</u></b>	<b><u>\$ 157,719,014</u></b>

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

**City of Hopkinsville, Kentucky  
Statement of Activities  
Component Units  
For the Year Ended June 30, 2018**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
	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
<b>COMPONENT UNITS</b>								
Hopkinsville Water Environment Authority	\$ (17,135,626)	\$ 16,416,335	\$ 109,440	\$ 61,777	\$ (548,074)	\$ -	\$ -	\$ (548,074)
Hopkinsville Solid Waste Enterprise	(9,773,164)	7,829,720	-	-	-	(1,943,444)	-	(1,943,444)
Hopkinsville Surface and Stormwater Utility	(1,535,895)	1,172,919	326,956	1,022,494	-	-	986,474	986,474
Total component units	<u>\$ (28,444,685)</u>	<u>\$ 25,418,974</u>	<u>\$ 436,396</u>	<u>\$ 1,084,271</u>	<u>(548,074)</u>	<u>(1,943,444)</u>	<u>986,474</u>	<u>(1,505,044)</u>
<b>GENERAL REVENUES:</b>								
					195,374	62,155	20,019	277,548
					-	102,763	-	102,763
					380,874	15,058	-	395,932
					<u>576,248</u>	<u>179,976</u>	<u>20,019</u>	<u>776,243</u>
					28,174	(1,763,468)	1,006,493	(728,801)
					<u>45,047,617</u>	<u>(353,776)</u>	<u>5,452,527</u>	<u>50,146,368</u>
					<u>\$ 45,075,791</u>	<u>\$ (2,117,244)</u>	<u>\$ 6,459,020</u>	<u>\$ 49,417,567</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, Kentucky (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, Kentucky 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 has three discretely presented component units.

**Discretely Presented Component Units**

The Sewerage and Water Works Commission, doing business as Hopkinsville Water Environment Authority (HWEA), is responsible for sewerage and water services for residents of the City of Hopkinsville, Kentucky, the City of Pembroke, Kentucky, and the City of Crofton, Kentucky. HWEA also provides sewer service to the City of Oak Grove, Kentucky. 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 this individual component unit may be obtained at the entity's administrative office located at 401 East 9<sup>th</sup> Street, Hopkinsville, Kentucky 42240.

Hopkinsville Solid Waste Enterprise (Solid Waste) is responsible for the management and operation of the solid waste operations in the City. The City's governing body appoints 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 Solid Waste's debt remains with the government. Solid Waste is presented as a

**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**

proprietary fund type. Complete financial statements for this individual component unit may be obtained at the entity's administrative office located at 5665 Mt. Zoar Road, Hopkinsville, Kentucky 42240.

Hopkinsville Surface and Stormwater Utility (Stormwater) 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 stormwater runoff for City residents. The City's governing body appoints Stormwater'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 Stormwater's debt remains with the government. Stormwater is presented as a proprietary fund type. Complete financial statements for this individual component unit may be obtained at the entity's administrative office located at 715 South Virginia Street, Hopkinsville, Kentucky 42240.

**Joint Ventures**

The City has joined with the local government, Christian County, Kentucky (the County), to form organizations for performance of certain activities. These joint ventures are legally separate organizations for which the City has an ongoing financial interest or financial responsibility. The joint ventures 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. Financial statements may be obtained from the City's Financial Director. The following lists these joint ventures with the amount of City funding for the year ended June 30, 2018:

<u>Agency</u>	<u>City Funding</u>
Hopkinsville-Christian County Ambulance Service District	\$ -
Hopkinsville-Christian County Drug & Violent Crimes Strike Force	-
Hopkinsville-Christian County Emergency Communications Center	875,570
Hopkinsville-Christian County Public Library	357,863

**Jointly Governed Organizations**

The City has joined with the County to form organizations for performance of certain activities. These organizations include representative(s) from the City and County, but the City has no financial interest or financial responsibility for them. The following lists these joint ventures with the amount of City funding for the year ended June 30, 2018:

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

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

**A. Reporting Entity, continued**

**Jointly Governed Organizations, continued**

<u>Agency</u>	<u>City Funding</u>
Hopkinsville-Christian County Airport Board	\$ 38,000
Hopkinsville-Christian County Convention & Visitor's Bureau	48,000
Hopkinsville-Christian County Economic Development Council	180,000
Hopkinsville-Christian County Community Development Services	517,814
Museums of Historic Hopkinsville-Christian County	39,000

**Related Organizations**

The City is involved in other related organizations where the City appoints the voting majority of the organization's board, but the City does not have financial accountability for them. These organizations are:

Christian County-Hopkinsville Development Corporation  
Hopkinsville-Christian County Conference Center Corporation  
Hopkinsville Electric System

**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 and business-type 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 and business-type 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 contributions 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

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

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

**B. Basis of Presentation, continued**

**Government-Wide Financial Statements, continued**

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 nonoperating 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.

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

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

**C. Fund Accounting, continued**

**Governmental Funds, continued**

*Special Revenue Funds* – Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes, and are as follows:

*Municipal Road Aid Fund* – established to account for state grants restricted for road improvements.

*Community Development Block Grant Fund* – established to account for grants to the City of Hopkinsville, Kentucky, under the provisions of Title I of the Housing and Community Development Act of 1974. Resources may only be used for activities that are directed toward satisfying the primary objective of developing viable urban communities and expanding economic opportunities, principally for persons of low and moderate income.

*Police Incentive Fund* – established to account for state money restricted for police department employees who meet certain certified training and receive pay incentive.

*Fire Incentive Fund* – established to account for state money restricted for fire department employees who meet certain certified training and receive pay incentive.

*UDAG Fund* – established to account for federal money restricted for loans within the community for development of businesses.

*Drug Enforcement Fund* – established to account for 15% of confiscated funds received through drug deals and other criminal acts and other donations. The money received through this fund is then used for police equipment and supplies.

*Expendable Trust Fund* – established to account for various cemetery funds with a portion of the revenue remaining in this expendable trust fund and the remaining portion being designated to the permanent non-expendable trust fund.

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

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

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

**C. Fund Accounting, continued**

**Governmental Funds, continued**

*Capital Projects Funds* – Capital projects funds are established to account for acquisition of capital assets or construction of major capital projects purchased with funds from long-term borrowings, and is as follows:

*Capital Fund* – established to account for the acquisition of capital assets or construction of major capital projects purchased with funds transferred from the General Fund.

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

*City Hall/Police Department Construction Fund* – established to account for the construction of the City administration building and the renovation of the previous City administration building to become the police department.

*WINS Construction Fund* – established to account for multiple projects and construction that are part of the WINS project. This is a major fund of 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 an enterprise fund:

*Tie Breaker Family Aquatic Fund* – established for the purpose of managing and accounting for the water park operations in the City. This is a major fund of the City.

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

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

**C. Fund Accounting, continued**

**Proprietary Funds, continued**

*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. The City reports the following as an internal service fund:

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

**Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City for individuals, private organizations or other governments, and are therefore not available to support the City's own programs. The City has one fiduciary fund, the Policemen's and Firefighter's Pension Fund (PFPF) (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 Systems.

**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 government-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 flow needs of its proprietary activities.

The pension trust fund is 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 in 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. 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.

**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**

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 thirty 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**

On the accrual basis of accounting, 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.

**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 fiscal year.

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

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

**F. Deposits and Investments, continued**

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 bank certificates of deposit, 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.

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. Major receivable balances include property taxes, payroll taxes, insurance premium taxes, and other similar taxes. Other receivables include interlocal note receivables and intergovernmental receivables.

**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 debt proceeds which were loaned to the City for various construction projects, cash and investments in an expendable trust, and cash and investments in a non-expendable trust.

Certain proceeds of revenue and general obligation 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 and Replacement" accounts are used to report resources set aside for unusual or extraordinary maintenance, repairs, renewals and/or replacements or extensions, additions

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

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

**J. Restricted Assets, continued**

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.

Restricted assets for Solid Waste 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.

**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 capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of pavements, storm sewers, water lines, and sanitary sewers.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. 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	15-40 Years
Equipment	5-10 Years
Infrastructure	20-99 Years
Land Improvements	10-20 Years
Vehicles	5-7 Years

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

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

**L. 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 position.

**M. 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, 2018.

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

**N. 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.

**O. Long-Term Debt**

The City follows GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, where bond issuance costs are expensed as incurred. 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 to finance the WINS and Convention Center projects.



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

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

**P. Pensions and Other Postemployment Benefits ("OPEB")**

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement Systems ("CERS") and additions to/deductions from the CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments, if any, are reported at fair value.

**Q. Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future period.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

**R. Net Position**

Net position represents the sum of assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets plus deferred outflows of resources less deferred inflows of resources related to those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* – This component of net position consists of amounts with restrictions placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

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

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

**R. Net Position, continued**

- *Unrestricted* – This component of net position consists of amounts that do not meet the definition of “restricted” or “net investment in capital assets”.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City would typically use restricted resources first, but reserves the right to selectively use unrestricted resources first to defer the use of these resources.

The City had deficit unrestricted net position of \$45,036,944 at June 30, 2018. This deficit is caused primarily due to the accrual of both the net pension liability and the net OPEB liability. The City expects results from future operations to fund such costs.

HWEA had deficit unrestricted net position of \$1,826,379 at June 30, 2018. This deficit is caused primarily due to the accrual of both the net pension liability and the net OPEB liability. HWEA expects results from future operations to fund such costs.

Solid Waste had deficit unrestricted net position of \$7,988,388 at June 30, 2018. This deficit is caused primarily due to the accrual of landfill closure costs, net pension liability, and net OPEB liability. Solid Waste expects results from future operations to fund such costs.

**S. 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.

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

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

**S. Fund Balance, continued**

- Assigned fund balance – amounts the City intends to use for a specific purpose (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. The General Fund is the only governmental fund which reports an unassigned fund balance.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or municipal order. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service, or for other purposes).

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

In the General Fund, City Council formally adopted a fund balance commitment policy to establish a Capital Equipment Replacement Reserve. The policy authorized initial funding of \$500,000 and additional funding on an annual basis of 50% of excess revenues (if any) in the General Fund. This committed fund balance was established to set aside funds for the purchase and/or replacement of City owned and operated equipment. The City also 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.

**T. 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 nonoperating 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.

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

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

**U. Use of Estimates**

In preparing the financial statements, management is required to make estimates and assumptions that will affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

**V. Budgetary Information**

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

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

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

**W. Adoption of New Accounting Pronouncements**

During the year ended June 30, 2018, management adopted new accounting guidance GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, and it aims to improve financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local government employers regarding financial support for OPEB that is provided by other entities. See Note 1X for the restatement of the July 1, 2017, net position.

During the year ended June 30, 2018, management also adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement No. 89 enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest cost incurred before the end of a construction period. This statement, which is to be applied prospectively, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial

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

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

**W. Adoption of New Accounting Pronouncements, continued**

statements prepared using the economic resources measurement focus. As result of management's adoption of GASB Statement No. 89, interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund

**X. Prior Year Restatements**

As a result of the implementation of GASB Statement No. 75 and the correction of an error related to CERS deferred outflows and deferred inflows in the prior year, the City's beginning net position was restated as follows:

Balance at July 1, 2017, as previously reported	\$ 5,398,678
Less: recording of beginning net OPEB liability and related deferred outflows and deferred inflows	(9,923,803)
Less: prior period adjustment for CERS deferred outflows and deferred inflows	<u>(1,004,905)</u>
Balance at July 1, 2017, as restated	<u>\$ (5,530,030)</u>

As a result of the implementation of GASB Statement No. 75, HWEA's beginning net position was restated as follows:

Balance at July 1, 2017, as previously reported	\$47,183,753
Less: recording of beginning net OPEB liability and related deferred outflows and deferred inflows	<u>(2,136,136)</u>
Balance at July 1, 2017, as restated	<u>\$45,047,617</u>

As a result of the implementation of GASB Statement No. 75 and the correction of an error related to CERS deferred outflows and deferred inflows in the prior year, Solid Waste's beginning net position was restated as follows:

Balance at July 1, 2017, as previously reported	\$ 1,065,759
Less: recording of beginning net OPEB liability and related deferred outflows and deferred inflows	(1,293,156)
Less: prior period adjustment for CERS deferred outflows and deferred inflows	<u>(126,379)</u>
Balance at July 1, 2017, as restated	<u>\$ (353,776)</u>

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

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

**X. Prior Year Restatements, continued**

As a result of the correction of an error related to the accrual of grant income receivable in the prior year, Stormwater's beginning net position was restated as follows:

Balance at July 1, 2017, as previously reported	\$ 5,045,069
Add: prior period adjustment for grant income receivable	<u>407,458</u>
Balance at July 1, 2017, as restated	<u>\$ 5,452,527</u>

**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.

As of June 30, 2018, the City did not have any deposited funds exposed to custodial credit risk.

As of June 30, 2018, HWEA, Solid Waste, and Stormwater did not have any deposited funds exposed to custodial credit risk.

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

**2. Deposits and Investments, continued**

**B. Investments**

The investments for City of Hopkinsville consisted of the following as of June 30, 2018:

<u>Investments as of June 30, 2018:</u>	<u>Average Credit Quality/Rating</u>	<u>Fair Value (Primary Gov't)</u>	<u>Fair Value (PFPF Pension Trust Fund)</u>	<u>Average Maturity</u>
Planters Bank CD	N/A	\$ 37,146	\$ -	1.20 Years
Federal Farm Credit Banks Bond	N/A	-	145,510	9.31 Years
Federal Home Loan Banks	N/A	-	48,463	8.33 Years
Discover Bank CD	N/A	-	98,232	1.94 Years
Goldman Sachs Bank CD	N/A	-	97,373	3.34 Years
Sallie Mae CD	N/A	-	50,021	0.34 Years
Synchrony Bank CD	N/A	-	28,604	6.60 Years
FL Hurricane Catastrophe Fund	AA	-	50,229	2.00 Years
Nassau Co NY Inter Fin Rev Bond	AA	-	49,461	3.38 Years
Indianapolis Ind Loc Pub Rev Bond	AA	-	46,874	3.38 Years
Kansas City MO Sp/ Obl Rev Bond	A	-	46,716	9.25 Years
Nevada Sys Higher Edu Bond	AA	-	49,039	6.00 Years
University Hawaii Rev Bond	AA	-	50,824	9.25 Years
Federated US Gov't Sec Fund: 2-5 Years	AAA	179,052	-	3.90 Years
Federated Total Return Gov't Bond Fund	AAA	119,515	-	7.40 Years
Schwab US TIPS ETF	N/A	119,923	-	8.40 Years
Vanguard Inter-Term Treasury ETF	N/A	119,348	-	5.60 Years
Vanguard Long-Term Treasury ETF	N/A	<u>60,572</u>	<u>-</u>	25.00 Years
Total Credit Risk Debt Securities		<u>\$ 635,556</u>	<u>\$ 761,346</u>	

The investments for Solid Waste consisted of the following as of June 30, 2018:

<u>Investments as of June 30, 2018</u>	<u>Average Credit Quality/Rating</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Average Maturity</u>
Heritage Bank CD	N/A	<u>\$ 246,684</u>	<u>\$ 246,684</u>	12 mo.
Total Credit Risk Debt Securities-Solid Waste		<u>\$ 246,684</u>	<u>\$ 246,684</u>	

**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, 2018, none of the City's investments were subject to custodial credit risk.

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

**2. Deposits and Investments, continued**

**B. Investments, continued**

**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 bank certificates of deposit, 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 and certificates of deposit. Investments in mutual funds and certificates of deposit are specifically excluded from this type of risk.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Foreign Currency Risk**

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

**C. Restricted Assets**

Debt issued in the City's name on behalf of component units is reported as debt both by the City and the component unit, with an offsetting receivable in restricted assets on the City's Statement of Net Position for the amount owed by the component unit.

The balances of the City's restricted asset accounts are as follows as of June 30, 2018:

<u>Due from Component Units:</u>	
Hopkinsville Water Environment Authority	\$ 19,445,815
Hopkinsville Solid Waste Enterprise	2,458,059
Hopkinsville Surface & Stormwater Utility	<u>3,998,364</u>
Total - due from component units	<u>\$25,902,238</u>



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

**2. Deposits and Investments, continued**

**C. Restricted Assets, continued**

<u>Temporarily restricted:</u>	
Debt proceeds in checking	\$ 5,945,976
Money market funds, expendable trust	105,134
Investments, expendable trust	<u>230,296</u>
<b>Total</b>	<b><u>\$ 6,281,406</u></b>
 <u>Permanently restricted:</u>	
Money market funds, non-expendable trust	\$ 73,324
Investments, non-expendable trust	<u>368,114</u>
<b>Total</b>	<b><u>\$ 441,438</u></b>

The balances of HWEA's expendable restricted asset accounts are as follows as of June 30, 2018:

Construction	\$ -
Equipment maintenance and replacement	<u>2,031,784</u>
<b>Total restricted assets</b>	<b><u>\$ 2,031,784</u></b>

The equipment maintenance and replacement fund includes \$2,031,784 set aside to meet reserve requirements associated with loans with the Kentucky Infrastructure Authority.

The balances of Solid Waste's restricted asset accounts are as follows as of June 30, 2018:

Landfill closure costs	\$ 246,684
Capital reserve	<u>284,780</u>
<b>Total restricted assets</b>	<b><u>\$ 531,464</u></b>

**3. Receivables**

**A. 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 each 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

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

**3. Receivables, continued**

**A. Property Taxes, continued**

purposes for the year ended June 30, 2018, was \$.231 real and \$.251 personal per \$100, which means that the City has a tax margin of approximately \$1.269 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.

**B. Accounts Receivable**

HWEA's net customer receivables include the following as of June 30, 2018:

Customer accounts receivable	\$ 1,074,366
Allowance for uncollectible accounts	-
Miscellaneous receivables	<u>20,325</u>
<b>Total customer receivables - HWEA</b>	<b><u>\$ 1,094,691</u></b>

Uncollectible accounts are written off as bad debts in the period in which, in management's opinion, collection is unlikely. Normally, all accounts over 90 days old are written off as bad debts. Net bad debt expense was \$96,374 for the year ended June 30, 2018.

Solid Waste's net customer receivables include the following as of June 30, 2018:

Customer accounts receivable	\$ 743,496
Allowance for uncollectible accounts	<u>(16,147)</u>
<b>Total customer receivables - Solid Waste</b>	<b><u>\$ 727,349</u></b>

The allowance for uncollectible accounts is based on outstanding account balances in excess of 90 days. Uncollectible accounts are written off as bad debts in the period in which, in management's opinion, collection is unlikely. Bad debt expense was \$26,429 for the year ended June 30, 2018.

Stormwater's net customer receivables include the following as of June 30, 2018:

Customer accounts receivable	\$ 92,449
Allowance for uncollectible accounts	<u>(4,622)</u>
<b>Total customer receivables - Stormwater</b>	<b><u>\$ 87,827</u></b>

The allowance for uncollectible accounts is based on collection rates of similar organizations in the industry. Bad debt expense was \$103 for the year ended June 30, 2018.

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

**3. Receivables, continued**

**C. Other Receivables/Deferred Revenues**

During the year ended June 30, 2015, HWEA entered into agreements with USACE to design and construct a natural gas pipeline and a water line to serve the Fort Campbell Army Post with a redundant connection for natural gas and domestic water. These construction projects were to be financed with loans from a local bank; but once the construction of these projects is complete, HWEA is to be reimbursed for the full amount of the projects over a ten-year period by USACE. As a result of this arrangement, HWEA has recorded two separate receivables (with deferred revenue offsetting each receivable) for the amount of funds drawn on each loan. Once the projects are complete and USACE begins reimbursing HWEA, the other receivable will be written down; and the deferred revenue balance will be amortized to revenue over the same period of time the underlying assets are being depreciated.

During the year ended June 30, 2018, the water line project that will serve FT. Campbell Army Post with a redundant supply of domestic water was completed, the line of credit associated with that particular project was closed out, and USACE began repaying HWEA. The first installment payment was a lump sum payment of \$2,499,906 followed by regular monthly installments. USACE is currently making monthly installment payments of \$24,325 including interest at 4.0%, due August 1, 2027. The balance of this other receivable was \$2,236,942 at June 30, 2018. Deferred revenue associated with this water line project is also being amortized now that the project has been completed and put into service. For the year ended June 30, 2018, \$119,656 was amortized to miscellaneous income. The balance of this deferred revenue account was \$4,743,460 at June 30, 2018.

Since the natural gas pipeline project that will serve the Ft. Campbell Army Post with a redundant connection for natural gas was not yet completed as of June 30, 2018, USACE has not started repaying the balance of the other receivable associated with this project, and the related deferred revenue account is not yet being amortized to revenue. The balance of this other receivable was \$2,174,368 at June 30, 2018. The balance of this deferred revenue account was \$2,174,368 at June 30, 2018.

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

**4. Capital Assets**

A summary of City governmental activities property, plant and equipment activity for the year ended June 30, 2018, is as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
<b><u>Governmental Activities</u></b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,933,350	\$ 247,500	\$ -	\$ 2,180,850
Construction in Progress	<u>5,102,785</u>	<u>2,775,883</u>	<u>749,733</u>	<u>7,128,935</u>
Total Capital Assets Not Being Depreciated	<u>7,036,135</u>	<u>3,023,383</u>	<u>749,733</u>	<u>9,309,785</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	20,792,344	816,932	92,852	21,516,424
Equipment	9,281,590	500,479	8,322	9,773,747
Infrastructure	20,881,426	852,609	-	21,734,035
Land Improvements	9,650,566	219,210	-	9,869,776
Vehicles	<u>6,156,997</u>	<u>1,238,434</u>	<u>173,567</u>	<u>7,221,864</u>
Total Capital Assets Being Depreciated	<u>66,762,923</u>	<u>3,627,664</u>	<u>274,741</u>	<u>70,115,846</u>
Less Accumulated Depreciation:				
Buildings and Improvements	5,400,627	615,055	92,852	5,922,830
Equipment	6,200,433	558,149	8,210	6,750,372
Infrastructure	13,855,057	845,222	-	14,700,279
Land Improvements	3,415,573	452,763	-	3,868,336
Vehicles	<u>4,737,667</u>	<u>681,629</u>	<u>166,384</u>	<u>5,252,912</u>
Total Accumulated Depreciation	<u>33,609,357</u>	<u>3,152,818</u>	<u>267,446</u>	<u>36,494,729</u>
<b>Total</b>	<u>\$ 40,189,701</u>	<u>\$ 3,498,229</u>	<u>\$ 757,028</u>	<u>\$ 42,930,902</u>

Deletions represent a disposition of surplus assets sold or no longer in use or the reclassification of completed construction in progress to an addition in capital assets being depreciated.

Depreciation expense charged to governmental activities for the year ended June 30, 2018, was as follows:

General Government	\$ 404,042
Public Safety	976,044
Public Works	1,115,255
Community Development	364,183
Parks and Recreation	<u>293,294</u>
<b>Total depreciation expense</b>	<u><b>\$3,152,818</b></u>

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

**4. Capital Assets, continued**

A summary of City business-type activities property, plant and equipment activity for the year ended June 30, 2018, is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<b>Business-type Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Capital Assets Being Depreciated:				
Buildings and Improvements	3,792,630	-	-	3,792,630
Equipment	352,904	18,875	-	371,779
Total Capital Assets Being Depreciated	<u>4,145,534</u>	<u>18,875</u>	<u>-</u>	<u>4,164,409</u>
Less Accumulated Depreciation:				
Buildings and Improvements	977,456	96,177	-	1,073,633
Equipment	325,776	12,505	-	338,281
Total Accumulated Depreciation	<u>1,303,232</u>	<u>108,682</u>	<u>-</u>	<u>1,411,914</u>
Total	<u>\$ 2,842,302</u>	<u>\$ (89,807)</u>	<u>\$ -</u>	<u>\$ 2,752,495</u>

Depreciation expense (including amortization of capitalized assets) charged to business-type activities for the year ended June 30, 2018, was \$108,682.

A summary of HWEA's business-type activities property, plant and equipment activity for the year ended June 30, 2018, is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<b>Business-type Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,571,840	\$ -	\$ -	\$ 1,571,840
Construction in Progress	9,868,261	5,456,287	6,585,132	8,739,416
Total Capital Assets Not Being Depreciated	<u>11,440,101</u>	<u>5,456,287</u>	<u>6,585,132</u>	<u>10,311,256</u>
Capital Assets Being Depreciated:				
Structures and Improvements	165,301,579	7,092,120	3,226,653	169,167,046
Equipment	9,916,145	92,495	356,903	9,651,737
Vehicles	1,342,920	-	-	1,342,920
Total Capital Assets Being Depreciated	<u>176,560,644</u>	<u>7,184,615</u>	<u>3,583,556</u>	<u>180,161,703</u>
Less Accumulated Depreciation:				
Structures and Improvements	67,229,734	4,154,921	2,412,722	68,971,933
Equipment	8,883,204	197,372	240,508	8,840,068
Vehicles	491,323	124,776	-	616,099
Total Accumulated Depreciation	<u>76,604,261</u>	<u>4,477,069</u>	<u>2,653,230</u>	<u>78,428,100</u>
Total	<u>\$ 111,396,484</u>	<u>\$ 8,163,833</u>	<u>\$ 7,515,458</u>	<u>\$ 112,044,859</u>

Depreciation expense (including amortization of capitalized assets) for HWEA for the year ended June 30, 2018, was \$4,477,069.

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

**4. Capital Assets, continued**

A summary of Solid Waste business-type activities property, plant and equipment activity for the year ended June 30, 2018, is as follows:

<b>Business-type Activities</b>	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 615,582	\$ -	\$ -	\$ 615,582
Construction in Progress	45,698	1,948,803	-	1,994,501
Total Capital Assets Not Being Depreciated	<u>661,280</u>	<u>1,948,803</u>	<u>-</u>	<u>2,610,083</u>
<b>Capital Assets Being Depreciated:</b>				
Buildings and Improvements	722,279	5,900	-	728,179
Equipment	8,921,396	3,023,291	3,329,458	8,615,229
Land Improvements	1,947,530	3,500	-	1,951,030
Total Capital Assets Being Depreciated	<u>11,591,205</u>	<u>3,032,691</u>	<u>3,329,458</u>	<u>11,294,438</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and Improvements	91,934	16,880	-	108,814
Equipment	4,254,262	1,082,277	848,755	4,487,784
Land Improvements	850,342	128,378	-	978,720
Total Accumulated Depreciation	<u>5,196,538</u>	<u>1,227,535</u>	<u>848,755</u>	<u>5,575,318</u>
Total	<u>\$ 7,055,947</u>	<u>\$ 3,753,959</u>	<u>\$ 2,480,703</u>	<u>\$ 8,329,203</u>

Depreciation expense (including amortization of capitalized assets) for Solid Waste for the year ended June 30, 2018, was \$1,227,535.

A summary of Stormwater business-type activities property, plant and equipment activity for the year ended June 30, 2018, is as follows:

<b>Business-type Activities</b>	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 797,006	\$ 4	\$ -	\$ 797,010
Construction in Progress	426,146	1,278,404	1,226,434	478,116
Total Capital Assets Not Being Depreciated	<u>1,223,152</u>	<u>1,278,408</u>	<u>1,226,434</u>	<u>1,275,126</u>
<b>Capital Assets Being Depreciated:</b>				
Infrastructure	7,209,518	1,226,434	-	8,435,952
<b>Less Accumulated Depreciation:</b>				
Infrastructure	1,142,491	294,279	-	1,436,770
Total	<u>\$ 7,290,179</u>	<u>\$ 2,210,563</u>	<u>\$ 1,226,434</u>	<u>\$ 8,274,308</u>

Depreciation expense (including amortization of capitalized assets) for Stormwater for the year ended June 30, 2018, was \$294,279.

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

**5. Post-Retirement Benefits**

Earned but unused vacation hours are converted to terminal pay at retirement. Prior to April 1, 2002, accumulated sick leave could be taken as terminal pay at the rate of four sick days per one day's wages. Effective April 1, 2002, the City Council authorized adoption of the Order of Participation with the Kentucky Retirement Systems, which established the Standard Unused Sick Leave Program. This Program provides for members with a participation date prior to September 1, 2008, to 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.

**6. Defined Benefit Pension Plans**

The City participates in the County Employees Retirement Systems (CERS) pension fund, the statewide local government retirement system, which covers substantially all of the government's general employees and current public safety employees by their election. The City also maintains a single-employer, defined benefit pension plan, Policemen's and Firefighter's Pension Fund (PFPF), which covers certain retired public safety employees.

**A. County Employees Retirement Systems**

Plan Description:

Employees of the City are provided a defined benefit pension plan through CERS, a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems (KRS). The CERS pension plan has two categories: Non-hazardous for general employees and hazardous for police and fire employees. The KRS was created by state statute under Kentucky Revised Statute section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646. That report can also be obtained at <https://kyret.ky.gov>. HWEA and Solid Waste also contribute to CERS.

Schedules pertaining to the City's and component units' proportionate share of the CERS net pension liability are located at pages 109-110.

Benefits Provided:

Kentucky Revised Statute section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. There are currently three benefit tiers. Tier 1 members are those participating in the plan before 9/1/2008; tier 2 members are those who began participation

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

**6. Defined Benefit Pension Plans, continued**

**A. County Employees Retirement Systems, continued**

Benefits Provided, continued:

9/1/2008 through 12/31/2013; and tier 3 members are those who began participation on or after 1/1/2014.

Tier 1 non-hazardous members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested for 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 non-hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57, and age plus earned service must equal 87 years at retirement or at 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 non-hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the Board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

Tier 1 hazardous members are eligible to retire with an unreduced benefit at age 55 with five years of service credit or after 20 years of service credit regardless of age. Benefits are determined by a formula using the member's highest three consecutive year average compensation, which must have at least 24 months. Reduced benefits for early retirement are available at age 50 with 15 years of service credit. Tier 2 hazardous members are eligible to retire at any age with 25 years of service or at age 60 with 5 years of service credit. Benefits are determined by a formula using the member's highest three year consecutive year average compensation, which must be 36 months. Reduced benefits for early retirement are available at age 50 with 15 years of service. Tier 3 hazardous members are also eligible to retire at any age with 25 years of service or at age 60 with 5 years of service. Tier 3 members are not eligible for reduced retirement benefits.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.



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

**6. Defined Benefit Pension Plans, continued**

**A. County Employees Retirement Systems, continued**

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Non-hazardous employees contribute 5% and hazardous employees contribute 8% of salary if they were plan members prior to September 1, 2008. Non-hazardous and hazardous employees that entered the plan after September 1, 2008, are required to contribute 6% and 9%, respectively, of their annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2018, total employer contributions for the City were \$3,554,690 based on a rate of 19.18% for non-hazardous and 31.55% for hazardous members through covered payroll. The contribution rate of 19.18% for non-hazardous is comprised of amounts for pension and insurance benefits, 14.48% or \$554,999 was dedicated to pensions and 4.70% or \$185,000 was allocated to insurance. The total contribution rate of 31.55% for hazardous consists of 22.20% or \$2,111,018 toward pension benefits and 9.35% or \$703,673 for insurance benefits. The total City contribution for 2018 for pension benefits was \$2,666,017, and the total City contribution for 2018 for insurance benefits was \$888,673.

HWEA's contributions for pension benefits for 2018 were \$464,785 for non-hazardous employees, and contributions for insurance benefits for 2018 were \$154,929 for non-hazardous employees. Solid Waste's contributions for pension benefits for 2018 were \$338,710 for non-hazardous employees, and contributions for insurance benefits for 2018 were \$109,940 for non-hazardous employees. HWEA and Solid Waste do not have any employees classified as hazardous.

By law, employer contributions are required to be paid. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, and an amortized portion of any unfunded liability.

Schedules pertaining to CERS contributions by the City and its component units are located at pages 111-112.

Actuarial Assumptions and Other Inputs:

The City's net pension liability (asset) was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2017 was determined

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

**6. Defined Benefit Pension Plans, continued**

**A. County Employees Retirement Systems, continued**

Actuarial Assumptions and Other Inputs, continued:

using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.30%
Salary increases:	3.05%, average
Investment rate of return:	6.25%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates, and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (see chart on following page). These were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

**6. Defined Benefit Pension Plans, continued**

**A. County Employees Retirement Systems, continued**

Actuarial Assumptions and Other Inputs, continued:

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	<u>2.00%</u>	<u>1.88%</u>
Total	<u>100.00%</u>	<u>6.56%</u>

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 6.25% based on a blending of the factors described above.

Changes in Assumptions:

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

Discount Rate:

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current and active and inactive

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

**6. Defined Benefit Pension Plans, continued**

**A. County Employees Retirement Systems, continued**

Discount Rate, continued:

members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate:

The following presents the City's net pension liability (asset) calculated using the current discount rate of 6.25%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate.

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
<b><u>City of Hopkinsville:</u></b>			
<b><u>CERS Nonhazardous:</u></b>			
Discount rate	5.25%	6.25%	7.25%
Proportionate Share NPL	<u>\$11,598,383</u>	<u>\$9,196,190</u>	<u>\$7,186,773</u>
<b><u>CERS Hazardous:</u></b>			
Discount rate	5.25%	6.25%	7.25%
Proportionate Share NPL	<u>\$47,522,862</u>	<u>\$37,796,986</u>	<u>\$29,764,833</u>
<b><u>Component Units:</u></b>			
HWEA:			
<b><u>CERS Nonhazardous:</u></b>			
Discount rate	5.25%	6.25%	7.25%
Proportionate Share NPL	<u>\$10,042,493</u>	<u>\$7,962,547</u>	<u>\$6,222,688</u>
Solid Waste:			
<b><u>CERS Nonhazardous:</u></b>			
Discount rate	5.25%	6.25%	7.25%
Proportionate Share NPL	<u>\$6,529,041</u>	<u>\$5,176,782</u>	<u>\$4,045,628</u>

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

**6. Defined Benefit Pension Plans, continued**

**A. County Employees Retirement Systems, continued**

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate, continued:

The following is a summary of net pension liability shown on the statement of net position as of June 30, 2018, included in noncurrent liabilities, due after one year:

<u>City of Hopkinsville:</u>	<u>Net Pension Liability</u>
CERS:	
Nonhazardous	\$ 9,196,190
Hazardous	<u>37,796,986</u>
Total City of Hopkinsville	<u>\$ 46,993,176</u>
 <u>Component Units:</u>	
HWEA	<u>\$ 7,962,547</u>
Solid Waste	<u>\$ 5,176,782</u>

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended June 30, 2018, the City was allocated \$7,921,859 in CERS pension expense, which consists of \$1,729,425 for nonhazardous pensions and \$6,192,434 for hazardous pensions. For the year ended June 30, 2018, HWEA was allocated \$1,603,039 in CERS pension expense for nonhazardous pensions, and Solid Waste was allocated \$1,091,355 in CERS pension expense for nonhazardous pensions.

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

**6. Defined Benefit Pension Plans, continued**

**A. County Employees Retirement Systems, continued**

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued:

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the CERS pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>City of Hopkinsville:</u>		
Net difference between expected and actual experience:		
Nonhazardous	\$ 11,406	\$ 233,439
Hazardous	<u>1,386,350</u>	<u>-</u>
	<u>1,397,756</u>	<u>233,439</u>
Net difference between projected and actual earnings on pension plan investments:		
Nonhazardous	728,327	614,581
Hazardous	<u>2,479,174</u>	<u>2,148,882</u>
	<u>3,207,501</u>	<u>2,763,463</u>
Change in assumptions:		
Nonhazardous	1,696,946	-
Hazardous	<u>7,539,637</u>	<u>-</u>
	<u>9,236,583</u>	<u>-</u>
Change in proportionate share:		
Nonhazardous	325,200	-
Hazardous	<u>663,767</u>	<u>158,955</u>
	<u>988,967</u>	<u>158,955</u>
City contributions subsequent to the measurement date of June 30, 2017:		
Nonhazardous	554,999	-
Hazardous	<u>2,111,018</u>	<u>-</u>
	<u>2,666,017</u>	<u>-</u>
Total	<u>\$ 17,496,824</u>	<u>\$ 3,155,857</u>

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

**6. Defined Benefit Pension Plans, continued**

**A. County Employees Retirement Systems, continued**

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued:

The \$2,666,017 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the following measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to CERS pensions will be recognized in pension expense as follows:

Year ending June 30:

2018	\$ 4,846,006
2019	5,291,547
2020	2,067,899
2021	(530,502)
2022	-
	<u>\$ 11,674,950</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

At June 30, 2018, HWEA reported deferred outflows of resources and deferred inflows of resources related to CERS pension from the following sources:

<u>HWEA:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 9,876	\$ 202,124
Net difference between projected and actual earnings on pension plan investments	630,624	532,137
Change in assumptions	1,469,306	-
Change in proportionate share	402,820	-
HWEA contributions subsequent to the measurement date of June 30, 2017	<u>464,785</u>	<u>-</u>
Total	<u>\$ 2,977,411</u>	<u>\$ 734,261</u>

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

**6. Defined Benefit Pension Plans, continued**

**A. County Employees Retirement Systems, continued**

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued:

The \$464,785 reported as deferred outflows of resources related to pensions resulting from HWEA's contributions subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the following measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to CERS pensions will be recognized in pension expense as follows:

Year ending June 30:

2018	\$ 835,422
2019	736,154
2020	309,033
2021	(102,244)
2022	-
	<u>\$ 1,778,365</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

At June 30, 2018, Solid Waste reported deferred outflows of resources and deferred inflows of resources related to CERS pension from the following sources:

<u>Solid Waste:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 6,421	\$ 131,409
Net difference between projected and actual earnings on pension plan investments	409,995	345,964
Change in assumptions	955,257	-
Change in proportionate share	429,903	-
Solid Waste contributions subsequent to the measurement date of June 30, 2017	<u>338,710</u>	<u>-</u>
Total	<u>\$ 2,140,286</u>	<u>\$ 477,373</u>



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

**6. Defined Benefit Pension Plans, continued**

**A. County Employees Retirement Systems, continued**

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued:

The \$338,710 reported as deferred outflows of resources related to pensions resulting from Solid Waste's contributions subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the following measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to CERS pensions will be recognized in pension expense as follows:

Year ending June 30:

2018	\$ 592,138
2019	552,211
2020	246,327
2021	(66,473)
2022	-
	<u>\$ 1,324,203</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**B. Policemen's and Firefighter's Pension Fund**

Plan Description:

The City's Policemen's and Firefighter's Pension Fund (PFPF) is a single-employer, defined benefit pension plan administered by a Board of Trustees consisting of the Mayor, the City's Chief Financial Officer, and two beneficiaries. PFPF was established to provide benefits for widows and retiring personnel of the police and fire departments who elect to continue to participate in the plan. During the year ended June 30, 1989, active public safety employees were provided the option to convert to coverage under County Employees Retirement Systems (CERS). Approximately 98 employees elected to convert from the PFPF. The City no longer has active employees contributing to the plan, and no new employees are permitted into the plan. PFPF does not provide separately issued financial statements; however, financial information is provided in this note and the schedules on pages 113-115.

Plan Membership:

As of June 30, 2018, PFPF had eighteen members, all of whom were inactive participants (retirees and beneficiaries) receiving benefits.

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

**6. Defined Benefit Pension Plans, continued**

**B. Policemen's and Firefighter's Pension Fund, continued**

Benefits Provided:

At his own election, any member who has completed twenty years of service may petition the Board of Trustees for retirement. The monthly benefit is based on a percentage of salary determined in accordance with the following schedule:

<u>Full Years of Service</u>	<u>Percentage of Salary</u>
20 but less than 21	50%
21 but less than 22	52
22 but less than 23	54
23 but less than 24	56
24 but less than 25	58
25 but less than 26	60
26 but less than 27	63
27 but less than 28	66
28 but less than 29	69
29 but less than 30	72
30 or more	75

A member who terminates his service either by resignation or dismissal before he is eligible for normal retirement shall receive a refund of his contributions to PFPF without interest.

There are two types of disability retirement that are allowed:

- 1) Temporary total disability (requires no service with respect to eligibility for benefits).
- 2) Total and permanent disability (no service eligibility requirement).

The benefit amount depends on the type of disability retirement as follows:

A member retiring due to temporary total disability shall receive a monthly pension equal to no more than 50% of his salary. The pension will be paid during his disability until he has recovered and returned to active duty. A member retiring due to total and permanent disability shall receive a monthly pension equal to 50% of his salary.

There are four types of dependent and estate benefits allowed:

- 1) Occupational – death in line of duty or of any disease contracted by reason of occupation of an active member (requires no service with respect to eligibility for benefits).
- 2) Nonoccupational – death other than in line of duty or of any disease contracted by reason of occupation of an active member (requires the completion of one year of service with respect to eligibility for benefits).

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

**6. Defined Benefit Pension Plans, continued**

**B. Policemen's and Firefighter's Pension Fund, continued**

Benefits Provided, continued:

- 3) Death of a retired or disabled member (requires the completion of one year of service with respect to eligibility for benefits).
- 4) Death of a member under conditions of 1), 2), or 3) who is not survived by an eligible spouse or unmarried dependent children.

In the cases of 1), 2), or 3) above, the pension is payable to an eligible surviving spouse until the death or remarriage of such spouse and then to any unmarried, dependent children.

For conditions 1), 2), or 3) above, the widow/widower is to receive a monthly benefit of 50% of monthly salary and each dependent child is to receive \$24 per month until age 18. For condition 4) above, a pension will be paid to dependent parents in an amount equal to 25% of his/her salary.

When an active or retired member dies, the Board of Trustees may pay from the PFPF to the surviving widow/widower or family a funeral expense not to exceed \$100.

Contributions:

Active members are required to contribute a specified percentage of the aggregate amount of all pay received. The specified percentage is the same OASDHI percentage which is paid by employees covered by the Social Security program. As there are no longer any active members, members made no contributions for the year ended June 30, 2018.

The City only contributes amounts required to fund current service costs and interest on unfunded past service costs as determined by actuarial valuations in compliance with Kentucky Revised Statutes. The City is not required to make an annual contribution. For the year ended June 30, 2018, the City made a contribution of \$325,000. The General Fund of the City covers administrative costs such as professional fees and beneficiary services. Other miscellaneous investment fees and miscellaneous costs are paid from available net assets in the PFPF.

Generally, any retiree or beneficiary shall receive a cost-of-living adjustment (COLA) after the member has been retired for three full years. The COLA shall be based on the "All Items Index" of the U.S. Department of Labor Consumer Price Indexes, and shall be compounded. However, a COLA shall only be granted to the extent it can be provided on an "actuarially sound basis".

The Schedule of Contributions for the PFPF is located at page 114.

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

**6. Defined Benefit Pension Plans, continued**

**B. Policemen's and Firefighter's Pension Fund, continued**

Net Pension Liability:

The City's net pension liability (asset) was measured as of January 1, 2018, and the total net pension liability (asset) was determined by an actuarial valuation as of that date.

The Schedule of Changes in the Net Pension Liability and Related Ratios for the PFPF is located at page 113.

Actuarial Assumptions and Other Inputs:

The total pension liability as of the January 1, 2018, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Method	Entry Age Normal Funding
Asset Valuation Method	Market Value
COLAs	1.75% per annum – based on 10-year COLA experience.
Mortality Rates	RP-2014 Generational Mortality Tables (Blue Collar) adjusted to 2006 with projected mortality improvements after year 2006 under Projection Scale MP-2018 (male and female scales)
Withdrawal Rates	None
Disablement Rates	None
Retirement Rates	None. All participants are retired.
Salary Scale	N/A
Discount Rate	For GASB Statement No. 68 purposes – 3.16% per annum, which represents the long-term rate of return assumption.

The solvency test, as described under GASB Statement No. 68, was not performed for the following reasons:

- 1) The City has demonstrated that their funding policy is to contribute at least the amount of annual benefit payments, and all participants are currently receiving benefits.
- 2) It is the actuary's understanding that the funding policy will continue to be to contribute an amount at least equal to the expected annual benefit payments.

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

**6. Defined Benefit Pension Plans, continued**

**B. Policemen's and Firefighter's Pension Fund, continued**

Actuarial Assumptions and Other Inputs, continued:

- 3) All participants are retirees; and since the funding policy is to contribute the expected annual benefit payments, the PFPF will remain solvent, assuming the City continues to contribute according to the funding policy.
- 4) The long-term rate of return is approximately the same as the 20-year municipal bond rate.

Changes in Assumptions and Methods from Prior Actuarial Valuation:

Mortality rates were previously based on RP-2014 Generational Mortality Tables (Blue Collar) adjusted to 2006 with projected mortality improvements after year 2006 under Projection Scale MP-2017 (male and female scales). Mortality rates are currently based on RP-2014 Generational Mortality Tables (Blue Collar) adjusted to 2006 with projected mortality improvements after year 2006 under Projection Scale MP-2018 (male and female scales). The reason for the change was to better recognize current and future mortality improvements.

The discount rate was previously 3.71%, whereas the current discount rate is 3.16%. This change was in recognition of the 20-Year High Grade Bond Rate Environment as of the valuation date.

Sensitivity Analysis:

The following presents the net pension liability (asset) of the City calculated using the discount rate of 3.16%, as well as the net pension liability (asset) if calculated using a discount rate that is 1 percentage point lower (2.16%) or 1 percentage point higher (4.16%) than the current rate:

	1% Decrease <u>(2.16%)</u>	Current Rate <u>(3.16%)</u>	1% Increase <u>(4.16%)</u>
Net pension liability	<u>\$2,599,302</u>	<u>\$2,261,788</u>	<u>\$1,973,482</u>

The components of the net pension liability of the Policemen's and Firefighter's Pension Fund at June 30, 2018, were as follows:

Total Pension Liability	\$ 3,432,042*
Plan Fiduciary Net Position	<u>(1,170,254)</u>
City's Net Pension Liability	<u>\$ 2,261,788</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 34.10%

\*Assumes 1.75% per annum COLAs.

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

**6. Defined Benefit Pension Plans, continued**

**B. Policemen's and Firefighter's Pension Fund, continued**

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension:

For the year ended June 30, 2018, the City recognized pension expense of \$303,990 for the Policemen's and Firefighter's Pension Fund. At June 30, 2018, the City recognized deferred outflows of resources and deferred inflows of resources related to PFPF from the following sources (note, any contributions made to the plan between January 1, 2018 and June 30, 2018, should be included as a deferred outflow):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability gains and losses	\$ -	\$ -
Change of assumptions	-	-
Net difference between projected and actual earnings on investments	<u>45,296</u>	-
Total	<u>\$ 45,296</u>	<u>\$ -</u>

Actual investment earnings above (or below) projected earnings are amortized over 5 years. Changes due to assumptions and experience losses (gains) are amortized over the average remaining service period of actives and inactive.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to PFPF will be recognized in pension expense as follows:

Year Ending June 30:	
2019	\$ 16,624
2020	13,755
2021	9,802
2022	5,115
2023	-
	<u>\$ 45,296</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**C. Pension Expense**

For the year ended June 30, 2018, total pension expense for the City was as follows:

CERS – Nonhazardous employees	\$ 1,729,425
CERS – Hazardous employees	6,192,434
PFPF	<u>303,990</u>
Total pension expense	<u>\$ 8,225,849</u>

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

**7. Postemployment Benefits Other Than Pensions (OPEB)**

Plan Description:

Employees of the City are provided hospital and medical insurance through the County Employees Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646. That report can also be obtained at <https://kyret.ky.gov>. HWEA and Solid Waste also contribute to this OPEB plan.

Benefits Provided:

The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgement, the welfare of the Commonwealth so demands.

Contributions:

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2018, was 4.70% of covered payroll. Contributions to the Insurance Fund from the City were \$888,673 for the year ended June 30, 2018. Employees who entered the plan prior to September 1, 2008, are not required to contribute to the Insurance Fund. Employees who entered the plan after September 1, 2008, are required to contribute 1% of their annual creditable compensation, which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

HWEA's contributions to the Insurance Fund were \$154,929 for the year ended June 30, 2018. Solid Waste's contributions to the Insurance Fund were \$109,940 for the year ended June 30, 2018.

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

**7. Postemployment Benefits Other Than Pensions (OPEB), continued**

Contributions, continued:

The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2017. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2017, the City's proportion was 0.16% for nonhazardous employees and 1.69% for hazardous employees; HWEA proportion was 0.14% for nonhazardous employees; and Solid Waste's proportion was 0.09% for nonhazardous employees.

Schedules pertaining to OPEB contributions by the City and its component units are located at pages 118-119.

Actuarial Assumptions and Other Inputs:

The City's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of that date. The total OPEB liability as of June 30, 2017 was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation:	2.30%
Payroll growth rate:	2.00%
Salary increases:	3.05%, average
Investment rate of return:	6.25%
Healthcare Trend Rates (Pre-65):	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare Trend Rates (Post-65):	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.



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

**7. Postemployment Benefits Other Than Pensions (OPEB), continued**

Actuarial Assumptions and Other Inputs, continued:

The long-term expected rate of return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (see chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer time frame. The assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	<u>2.00%</u>	<u>1.88%</u>
Total	<u>100.00%</u>	<u>6.56%</u>

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

**7. Postemployment Benefits Other Than Pensions (OPEB), continued**

Discount Rate:

The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous and 5.96% for hazardous. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in CERS contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017).

Sensitivity of the City's Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate:

The following presents the City's proportionate share of the collective net OPEB liability calculated using the current discount rate, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

<u>City of Hopkinsville:</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<u>Nonhazardous:</u>			
Discount rate	4.84%	5.84%	6.84%
Proportionate Share OPEB Liability	<u>\$4,018,976</u>	<u>\$3,158,469</u>	<u>\$2,442,391</u>
<u>Hazardous:</u>			
Discount rate	4.96%	5.96%	6.96%
Proportionate Share OPEB Liability	<u>\$18,716,271</u>	<u>\$13,965,938</u>	<u>\$10,079,385</u>

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

**7. Postemployment Benefits Other Than Pensions (OPEB), continued**

Sensitivity of the City's Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate, continued:

<u>Component Units:</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<b>HWEA:</b>			
<u>Nonhazardous:</u>			
Discount rate	4.84%	5.84%	6.84%
Proportionate Share OPEB Liability	<u>\$3,479,842</u>	<u>\$2,734,769</u>	<u>\$2,114,751</u>
<b>Solid Waste:</b>			
<u>Nonhazardous:</u>			
Discount rate	4.84%	5.84%	6.84%
Proportionate Share OPEB Liability	<u>\$2,262,390</u>	<u>\$1,777,987</u>	<u>\$1,374,887</u>

Sensitivity of the City's Proportionate Share of the Collective Net OPEB Liability to Changes in the Healthcare Cost Trend Rates:

The following presents the City's proportionate share of the collective net OPEB liability as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

<u>City of Hopkinsville:</u>	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
<u>Nonhazardous:</u>			
Proportionate Share OPEB Liability	<u>\$2,422,708</u>	<u>\$3,158,469</u>	<u>\$4,114,914</u>
<u>Hazardous:</u>			
Proportionate Share OPEB Liability	<u>\$9,886,273</u>	<u>\$13,965,938</u>	<u>\$19,015,143</u>

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

**7. Postemployment Benefits Other Than Pensions (OPEB), continued**

Sensitivity of the City's Proportionate Share of the Collective Net OPEB Liability to Changes in the Healthcare Cost Trend Rates, continued:

	1%	Current Healthcare Cost Trend Rate	1%
<u>Component Units:</u>	<u>Decrease</u>		<u>Increase</u>
HWEA:			
<u>Nonhazardous:</u>			
Proportionate Share OPEB Liability	<u>\$2,097,709</u>	<u>\$2,734,769</u>	<u>\$3,562,910</u>
Solid Waste:			
<u>Nonhazardous:</u>			
Proportionate Share OPEB Liability	<u>\$1,363,807</u>	<u>\$1,777,987</u>	<u>\$2,316,396</u>

The following is a summary of net OPEB liability shown on the statement of net position as of June 30, 2018, included in noncurrent liabilities, due after one year:

<u>City of Hopkinsville:</u>	<u>Net Pension Liability</u>
CERS:	
Nonhazardous	\$ 3,158,469
Hazardous	<u>13,965,938</u>
Total City of Hopkinsville	<u>\$ 17,124,407</u>
<u>Component Units:</u>	
HWEA	<u>\$ 2,734,769</u>
Solid Waste	<u>\$ 1,777,987</u>

OPEB Plan Fiduciary Net Position:

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS financial report.

Schedules pertaining to the proportionate share of the net OPEB liability for the City and its component units is located at pages 116-117.

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

**7. Postemployment Benefits Other Than Pensions (OPEB), continued**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the year ended June 30, 2018, the City was allocated \$2,486,095 in CERS OPEB expense, which consists of \$359,919 for nonhazardous pensions and \$2,126,176 for hazardous pensions. For the year ended June 30, 2018, HWEA was allocated \$311,637 in CERS OPEB expense for nonhazardous pensions, and Solid Waste was allocated \$202,608 in CERS OPEB expense for nonhazardous pensions.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB from the following sources:

<u>City of Hopkinsville:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience:		
Nonhazardous	\$ -	\$ 8,772
Hazardous	<u>-</u>	<u>32,544</u>
	<u>-</u>	<u>41,316</u>
Net difference between projected and actual earnings on pension plan investments:		
Nonhazardous	-	149,268
Hazardous	<u>-</u>	<u>876,247</u>
	<u>-</u>	<u>1,025,515</u>
Change in assumptions:		
Nonhazardous	687,263	-
Hazardous	<u>5,151,448</u>	<u>-</u>
	<u>5,838,711</u>	<u>-</u>
Change in proportionate share:		
Nonhazardous	-	7,328
Hazardous	<u>-</u>	<u>2,777</u>
	<u>-</u>	<u>10,105</u>
City contributions subsequent to the measurement date of June 30, 2017:		
Nonhazardous	185,000	-
Hazardous	<u>703,673</u>	<u>-</u>
	<u>888,673</u>	<u>-</u>
Total	<u>\$ 6,727,384</u>	<u>\$1,076,936</u>

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

**7. Postemployment Benefits Other Than Pensions (OPEB), continued**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources  
Related to OPEB, continued:

The \$888,673 reported as deferred outflows of resources related to OPEB resulting from the City's contributions subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net OPEB liability in the following measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:

2018	\$ 1,315,968
2019	1,315,968
2020	1,315,968
2021	651,161
2022	127,114
Thereafter	35,596
	<u>\$ 4,761,775</u>

In the table shown above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

At June 30, 2018, HWEA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>HWEA:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ -	\$ 7,596
Net difference between projected and actual earnings on pension plan investments	-	129,244
Change in assumptions	595,068	-
Change in proportionate share	-	6,345
HWEA contributions subsequent to the measurement date of June 30, 2017	<u>154,929</u>	<u>-</u>
Total	<u>\$ 749,997</u>	<u>\$ 143,185</u>

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

**7. Postemployment Benefits Other Than Pensions (OPEB), continued**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources  
Related to OPEB, continued:

The \$154,929 reported as deferred outflows of resources related to OPEB resulting from HWEA's contributions subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net OPEB liability in the following measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:

2018	\$ 77,751
2019	77,751
2020	77,751
2021	77,751
2022	110,062
Thereafter	30,817
	<u>\$ 451,883</u>

In the table shown above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

At June 30, 2018, Solid Waste reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Solid Waste:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ -	\$ 4,938
Net difference between projected and actual earnings on pension plan investments	-	84,027
Change in assumptions	386,879	-
Change in proportionate share	-	4,126
Solid Waste contributions subsequent to the measurement date of June 30, 2017	<u>109,940</u>	<u>-</u>
Total	<u>\$ 496,819</u>	<u>\$ 93,091</u>

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

**7. Postemployment Benefits Other Than Pensions (OPEB), continued**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources  
Related to OPEB, continued:

The \$109,940 reported as deferred outflows of resources related to OPEB resulting from Solid Waste's contributions subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net OEPB liability in the following measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OEPB will be recognized in OPEB expense as follows:

Year ending June 30:

2018	\$ 50,550
2019	50,550
2020	50,550
2021	50,550
2022	71,556
Thereafter	<u>20,032</u>
	<u>\$ 293,788</u>

In the table shown above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

**8. Deferred Outflows and Inflows of Resources**

The City reports a decrease in net assets that relates to future periods as deferred outflows of resources in a separate section of its statement of net position. The City has two types of deferred outflows of resources reported in the statement of net position: (1) a deferred amount arising from the refunding of bonds in a previous year and (2) deferred amounts relating to the pension and OPEB plans. The deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The deferred refunding amount is being amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows associated with the pension and OPEB plans will be recognized as a reduction of the net pension and net OPEB liabilities in future years.

The City reports an increase in net assets that relates to future periods as deferred inflows of resources in a separate section of its statement of net position. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The only deferred inflows of resources reported in the statement of net position are the deferred inflows of resources associated with the pension and OPEB plans. This deferred inflow will be recognized as pension expense in future years.

The deferred outflows of resources for HWEA include deferred charges on various debt refundings and deferred outflows relating to HWEA's pension and OPEB plans. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. Those amounts are deferred and amortized over the shorter of the



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

**8. Deferred Outflows and Inflows of Resources, continued**

life of the refunded or refunding debt. Deferred outflows relating to the pension and OPEB plans will be recognized as a reduction of the net pension and net OPEB liabilities in a subsequent year. The deferred inflows of resources for HWEA include deferred inflows associated with its pension and OPEB plans that will be recognized in pension expense in future years and deferred revenue associated with the arrangement HWEA has with the U.S. Army Corps of Engineers (USACE) relating to financing the water and gas projects in Fort Campbell.

The deferred outflows of resources for Solid Waste include deferred amounts arising from the pension and OPEB plans. The deferred outflows of resources associated with the pension plan will be recognized as a reduction of the net pension and net OPEB liabilities in future years. The deferred inflows of resources for Solid Waste include deferred amounts arising from the pension and OPEB plans. The deferred inflows of resources associated with its pension and OPEB plans will be recognized in pension expense in future years.

**9. 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. During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Principal Outstanding July 1, 2017	Additions	Reductions	Principal Outstanding June 30, 2018	Due Within One Year
<b>Governmental Activities:</b>					
Capital Leases-City	\$ 416,906	\$ 507,207	\$ 100,113	\$ 824,000	\$ 233,690
Capital Leases- on behalf of component units	2,375,705	2,517,984	3,135,064	1,758,625	1,414,173
General Obligation Leases- on behalf of component units	953,750	-	264,167	689,583	277,083
General Obligation Bonds-City	19,558,917	7,335,000	1,111,000	25,782,917	1,307,917
General Obligation Bonds- on behalf of component units	23,865,000	-	1,690,000	22,175,000	1,820,000
Notes Payable-City	1,125,000	-	75,000	1,050,000	75,000
Plus: Unamortized Premium-City	110,631	-	17,183	93,448	-
Plus: Unamortized Premium- on behalf of component units	1,452,244	-	167,103	1,285,141	-
Less: Unamortized Discount-City	(28,515)	(26,655)	(1,989)	(53,181)	-
Less: Unamortized Discount- on behalf of component units	(6,630)	-	(519)	(6,111)	-
Total long-term debt	49,823,008	10,333,536	6,557,122	53,599,422	5,127,863
Compensated Absences	2,709,875	284,072	297,436	2,696,511	107,860*
Net Pension Liability (PFPF)	2,273,840	-	12,052	2,261,788	-
Net Pension Liability (CERS)	35,234,123	11,759,053	-	46,993,176	-
Net OPEB Liability (CERS)	10,822,566	6,301,841	-	17,124,407	-
<b>Total Governmental Activities</b>	<b>\$ 100,863,412</b>	<b>\$ 28,678,502</b>	<b>\$ 6,866,610</b>	<b>\$ 122,675,304</b>	<b>\$ 5,235,723</b>

\*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.

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

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

	Principal Outstanding July 1, 2017	Additions	Reductions	Principal Outstanding June 30, 2018	Due Within One Year
<b><u>Business-type Activities-HWEA:</u></b>					
Revenue Bonds	\$ 2,845,500	\$ -	\$ 237,500	\$ 2,608,000	\$ 249,000
Notes Payable-KIA loans	41,220,300	3,359,403	2,670,059	41,909,644	2,003,103
Revenue Leases	5,520,372	687,251	2,637,923	3,569,700	142,102
Payable to City of Hopkinsville:					
General Obligation Bonds	19,710,000	-	1,525,000	18,185,000	1,655,000
Plus: Unamortized Premium	1,429,797	-	162,871	1,266,926	-
Less: Unamortized Discount	(6,630)	-	(519)	(6,111)	-
Total long-term debt	<u>70,719,339</u>	<u>4,046,654</u>	<u>7,232,834</u>	<u>67,533,159</u>	<u>4,049,205</u>
Compensated Absences	408,948	191,478	174,037	426,389	185,662*
Net Pension Liability (CERS)	6,361,838	1,600,709	-	7,962,547	-
Net OPEB Liability (CERS)	<u>2,145,071</u>	<u>589,698</u>	<u>-</u>	<u>2,734,769</u>	<u>-</u>
<b>Total Business-type Activities- HWEA</b>	<b><u>\$79,635,196</u></b>	<b><u>\$ 6,428,539</u></b>	<b><u>\$ 7,406,871</u></b>	<b><u>\$ 78,656,864</u></b>	<b><u>\$ 4,234,867</u></b>
<b><u>Business-type Activities-Solid Waste:</u></b>					
Payable to City of Hopkinsville:					
Capital Vehicle Leases	\$ 2,375,705	\$ 2,517,984	\$ 3,135,064	\$ 1,758,625	\$ 1,414,173
General Obligation Leases	953,750	-	264,167	689,583	277,083
Plus: Unamortized Premium	<u>13,665</u>	<u>-</u>	<u>3,814</u>	<u>9,851</u>	<u>-</u>
Total long-term debt	<u>3,343,120</u>	<u>2,517,984</u>	<u>3,403,045</u>	<u>2,458,059</u>	<u>1,691,256</u>
Compensated Absences	381,969	84,545	-	466,514	69,977*
Net Pension Liability (CERS)	3,761,528	1,415,254	-	5,176,782	-
Net OPEB Liability (CERS)	1,394,600	383,387	-	1,777,987	-
Accrued Landfill Closing Costs	<u>4,965,810</u>	<u>1,043,506</u>	<u>-</u>	<u>6,009,316</u>	<u>-</u>
<b>Total Business-type Activities- Solid Waste</b>	<b><u>\$ 13,847,027</u></b>	<b><u>\$ 5,444,676</u></b>	<b><u>\$ 3,403,045</u></b>	<b><u>\$ 15,888,658</u></b>	<b><u>\$ 1,761,233</u></b>
<b><u>Business-type Activities-Stormwater:</u></b>					
Payable to City of Hopkinsville:					
General obligation bonds	\$ 4,155,000	\$ -	\$ 165,000	\$ 3,990,000	\$ 165,000
Plus: Unamortized Premium	<u>8,782</u>	<u>-</u>	<u>418</u>	<u>8,364</u>	<u>-</u>
<b>Total Business-type Activities- Stormwater</b>	<b><u>\$ 4,163,782</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 165,418</u></b>	<b><u>\$ 3,998,364</u></b>	<b><u>\$ 165,000</u></b>
<b>Total Business-type Activities- Component Units</b>	<b><u>\$97,646,005</u></b>	<b><u>\$11,873,215</u></b>	<b><u>\$10,975,334</u></b>	<b><u>\$ 98,543,886</u></b>	<b><u>\$ 6,161,100</u></b>

\*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, claims and judgments payable, net pension liability (PFPF), net pension liability (CERS), and net OPEB liability (CERS) are liquidated by the general fund.

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

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

**Capital Leases**

See Note 10 regarding capital leases.

**General Obligation 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 agreement has a variable interest rate, 4.10% as of June 30, 2018, plus administrative fees, and matures in January 2021.

Branch Banking and Trust Company (BB&T) issued a general obligation lease agreement with the City on behalf of Solid Waste for \$400,000 in December 2013 for the acquisition, construction, installation, and equipping of a solid waste enterprise administration building. This lease agreement has a variable interest rate, 1.98% as of June 30, 2018, and matures in December 2019.

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

The outstanding debt related to general obligation leases at June 30, 2018, was:

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>Balance</u>
<u>Issued on behalf of component units:</u>			
Kentucky Bond Corporation, 2011 - \$1,835,000	2021	4.10%	\$ 549,583
Branch Banking & Trust Co, 2013 - \$400,000	2019	1.98%	<u>140,000</u>
			689,583
Plus: Unamortized bond premium			<u>9,851</u>
	Total		<u>\$ 699,434</u>

<u>Business-type Activities-Solid Waste:</u>	<u>Matures</u>	<u>Rate</u>	<u>Balance</u>
Due to City of Hopkinsville, KBC	2021	4.10%	\$ 549,583
Due to City of Hopkinsville, BB&T	2019	1.98%	<u>140,000</u>
			689,583
Plus: Unamortized bond premium			<u>9,851</u>
	Total		<u>\$ 699,434</u>

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

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

**General Obligation Leases, continued**

Annual debt service requirements to maturity for general obligation lease agreements are as follows as of June 30, 2018:

Fiscal Year Ending June 30	Governmental Activities		Business-type Activities Component Units	
	Principal	Interest	Principal	Interest
2019	\$ 277,083	\$ 25,886	\$ 277,083	\$ 25,886
2020	284,167	15,699	284,167	15,699
2021	<u>128,333</u>	<u>5,717</u>	<u>128,333</u>	<u>5,717</u>
Total	<u>\$ 689,583**</u>	<u>\$ 47,302**</u>	<u>\$ 689,583</u>	<u>\$ 47,302</u>

\*\* Governmental activities debt service requirements include component unit debt service requirements since those leases were issued by the City on behalf of the component unit.

**Notes Payable**

The City has an installment note with the Bank of New York Mellon for the renovation of the City's eight parks.

HWEA has KIA loans for the expansion and upgrade of the Wastewater Treatment System (Fund A), a new Water Treatment Facility (Fund B), and infrastructure to comply with the Safe Drinking Water Act (Fund F).

The outstanding debt related to notes payable at June 30, 2018, was:

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>Balance</u>
Section 108 Guaranteed Loan - \$1,500,000	2031	2.50%	<u>\$ 1,050,000</u>
	Total		<u>\$ 1,050,000</u>

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

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

**Notes Payable, continued**

<u>Business-type Activities-HWEA:</u>	<u>Matures</u>	<u>Rate</u>	<u>Balance</u>
KIA Fund A - \$614,521	2020	0.4%	\$ 50,446
KIA Fund A Phase III - \$834,891	2021	3.8%	141,755
KIA Fund B Water Plant - \$5,000,000	2026	1.9%	1,621,375
KIA Fund A Phase IV - \$4,583,635	2026	1.0%	1,875,314
KIA Fund A Phase V - \$2,469,924	2027	1.0%	1,175,758
KIA Fund F Drinking Water - \$1,513,593	2028	1.0%	794,511
KIA Fund F Water - \$3,887,432	2028	3.0%	2,302,368
KIA Fund F Water - \$8,800,000	2032	1.0%	6,552,281
KIA Fund A Sewer - \$483,710	2033	2.0%	380,191
KIA Fund A Sewer - \$7,488,282	2034	2.0%	6,219,310
KIA Fund A Sewer - \$7,090,224	2036	2.0%	6,501,325
KIA Fund A – loan not closed yet			10,926,542
KIA Fund F – loan not closed yet			<u>3,368,468</u>
	<b>Total</b>		<b><u>\$41,909,644</u></b>

Annual debt service requirements to maturity for notes payable are as follows as of June 30, 2018:

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities Component Units</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 75,000	\$ 29,254	\$ 2,003,103	\$ 463,084
2020	75,000	27,821	2,020,067	429,236
2021	75,000	26,134	2,007,630	394,802
2022	75,000	24,255	2,011,026	361,420
2023	75,000	22,283	2,044,481	327,964
2024-2028	375,000	78,476	9,507,970	1,128,070
2029-2033	300,000	20,253	6,319,513	457,375
2034-2037	-	-	<u>15,995,854</u>	<u>50,920</u>
<b>Total</b>	<b><u>\$ 1,050,000</u></b>	<b><u>\$ 228,476</u></b>	<b><u>\$ 41,909,644</u></b>	<b><u>\$ 3,612,871</u></b>

As of June 30, 2018, HWEA has pledged future revenues of the water and sewer system to repay \$41,909,644 in total KIA loans established from 1996 through 2018, but they are subordinated to the existing revenue bonds. Principal and interest on these loans are payable through 2037, solely from the water and sewer system net revenues. Annual principal and interest on these loans are expected to require approximately 15% of such net revenues (based on principal and interest payments for the year ending June 30, 2019, as a percentage of net water and sewer system revenues for the year ended June 30, 2018, which totaled \$16,797,209). Principal and interest paid for the year ended June 30, 2018, was \$3,427,534. As of June 30, 2018, pledged future revenues totaled \$45,522,515, which was the amount of the remaining principal and interest payments on these KIA loans.

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

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

**General Obligation Bonds**

During the year ended June 30, 2004, the City issued general obligation bonds (Series 2003B) for the purpose of refunding a floating indebtedness obligation incurred by the City for an unfunded pension liability. This obligation matured in 2017 and was paid off during the year ended June 30, 2018. Interest rates ranged from 4.00% to 5.30% and was due in semi-annual installments.

During the year ended June 30, 2011, the City issued general obligation bonds (Series 2010A) for the purpose of refinancing a KLC Pooled Lease Financing note for the construction of Tie Breaker Park and fire station. This obligation matures in 2019 with an interest rate of 2.50%. Principal and interest are due in monthly installments.

During the year ended June 30, 2012, the City issued general obligation bonds (Series 2011A) for the purpose of refinancing two bond issues: portion (1) for \$3,775,000 was used for the acquisition and construction of Tie Breaker Family Aquatic Center, the Public Works Complex, and renovations at Gander Park and portion (2) for \$1,190,000 was for improvements to the Old First City Bank Building. For portion (1) of the bond issue, this obligation matures in 2026 with interest rates ranging from 2.00% to 3.125%. For portion (2) of the bond issue, this obligation matures in 2035 with interest rates ranging from 2.00% to 3.75%. Interest is due in semi-annual installments for both portions of this bond issue.

During the year ended June 30, 2012, the City issued general obligation bonds (Series 2011B) for \$7,220,000 for the construction of a City administration building and the renovation of the previous City administration building to the police department. This obligation matures in 2037 with interest rates ranging from 2.00% to 3.75%. Interest is due in semi-annual installments.

During the year ended June 30, 2014, the City issued general obligation bonds (Series 2013C) for \$3,965,000 for the construction of a City administration building and the renovation of the current City administration building to become the police department. This obligation matures in 2038 with interest rates ranging from 2.00% to 3.75%. Interest is due in semi-annual installments.

During the year ended June 30, 2015, the City issued general obligation bonds (Series 2014A) for \$2,545,000 for the financing of the City's portion of a conference center tax increment financing (TIF), the U.S. Smokeless Tobacco project, and a visitors' center. This obligation matures in 2034 with interest rates ranging from 2.00% to 3.25%. Interest is due in semi-annual installments.

During the year ended June 30, 2017, the City issued general obligation bonds (Series 2016) for \$2,970,000 to finance a grant to Thompson Thrift Development, Inc. for the construction of the retail development, Hopkinsville Towne Center. This obligation matures in 2038 with interest rates ranging from 2.00% to 3.00%. Interest is due in semi-annual installments.

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

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

**General Obligation Bonds, continued**

During the year ended June 30, 2018, the City issued general obligation bonds (Series 2017) for \$7,335,000 to finance the WINS and Convention Center projects. This obligation matures in 2042 with interest rates ranging from 2.00% to 3.25%. Interest is due in semi-annual installments.

The following are general obligation bonds issued by the City on behalf of component units:

During the year ended June 30, 2014, the City, on behalf of HWEA, issued general obligation bonds (Series 2013B) for \$3,520,000 for the purpose of constructing a 2MG water tank and water mains along Eagle Way Bypass and US-41A and to pay other allowable expenditures including issuance costs. This obligation matures in 2034 with interest rates ranging from 2.00% to 4.50%. Interest is due in semi-annual installments. This obligation is secured by the full taxing authority of the City.

During the year ended June 30, 2014, the City, on behalf of Stormwater, issued general obligation refunding bonds (Series 2013A) for \$4,635,000 for the purpose of refinancing the 2009 KLC Bond for the acquisition, construction and installation of surface and stormwater projects within the City. This bond has a fixed interest rate of 2.00% and matures in March 2038. This obligation is secured by the full taxing authority of the City.

During the year ended June 30, 2015, the City, on behalf of HWEA, issued tax-exempt general obligation bonds (Series 2014B) for \$1,700,000 for the purpose of helping finance the acquisition, construction, installation, and equipping of the Phase I Natural Gas Line and to pay other allowable expenditures including issuance costs. This obligation matures in 2038 with interest rates ranging from 1.50% to 6.625%. Interest is due in semi-annual installments. This obligation is secured by the full taxing authority of the City.

During the year ended June 30, 2015, the City, on behalf of HWEA, issued tax-exempt general obligation bonds (Series 2014C) for \$1,620,000 to currently refund and redeem the outstanding Kentucky Rural Water Finance Corporation revenue bonds dated March 3, 2004 and April 27, 2004 (Series 2001H and 2004B maturing in 2025 and 2029, respectively), the proceeds of which financed the acquisition, construction, installation, and equipping of extensions, additions, and improvements to the Oak Grove system. (These revenue bonds were assumed by HWEA upon HWEA's acquisition of the Oak Grove sewer system during the year ended June 30, 2008.) The Series 2014C general obligation bonds were also issued to pay other allowable expenditures including issuance costs. This current refunding took place to achieve debt service savings. This obligation matures in 2029 with interest rates ranging from 1.10% to 3.25%. Interest is due in semi-annual installments. This obligation is secured by the full taxing authority of the City.

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

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

**General Obligation Bonds, continued**

During the year ended June 30, 2015, the City, on behalf of HWEA, issued tax-exempt general obligation bonds (Series 2015A) for \$15,710,000 to advance refund the outstanding Series 2005A revenue bonds, the proceeds of which financed the acquisition, construction, equipping, and installation of a 36-inch raw water line from Lake Barkley to the Moss Raw Water Treatment Plant and appurtenances, including a raw water intake. The Series 2015A general obligation bonds were also issued to pay other allowable expenditures including issuance costs. This advance refunding took place to achieve debt service savings. This obligation matures in 2026 with an interest rate of 4.00%. Interest is due in semi-annual installments. This obligation is secured by the full taxing authority of the City.

The outstanding debt related to general obligation bonds at June 30, 2018, was:

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>Balance</u>
Kentucky Bond Corporation			
GO, 2010 First Series A - \$1,055,000	2019	2.50%	\$ 72,917
US Bank National Association			
GO, 2011 Series A - \$4,965,000	2026/2035	2%-3.75%	3,085,000
US Bank National Association			
GO, 2011 Series B - \$7,220,000	2037	2%-3.75%	6,920,000
US Bank National Association			
GO, 2013 Series C - \$3,965,000	2038	2%-3.75%	3,705,000
US Bank National Association			
GO, 2014 Series A - \$2,545,000	2034	2%-3.25%	1,695,000
US Bank National Association			
GO, 2016 Series - \$2,970,000	2038	2%-3.00%	2,970,000
US Bank National Association			
GO, 2017 Series - \$7,335,000	2042	2%-3.25%	<u>7,335,000</u>
Bonds issued directly to the City			<u>\$25,782,917</u>



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

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

**General Obligation Bonds, continued**

<u>Governmental Activities:</u>	<u>Matures</u>	<u>Rate</u>	<u>Balance</u>
<u>Issued on behalf of component units:</u>			
US Bank National Association GO, 2013 Series B – \$3,520,000	2034	2%-4.50%	\$ 2,980,000
US Bank National Association GO, 2014 Series B - \$1,700,000	2038	1.50%-6.625%	1,700,000
US Bank National Association GO, 2014 Series C - \$1,620,000	2029	1.10%-3.25%	1,265,000
US Bank National Association GO, 2015 Series A - \$15,710,000	2026	4%	12,240,000
US Bank National Association GO, 2013 Series A - \$4,635,000	2038	2%	<u>3,990,000</u>

Bonds issued on behalf of component units \$ 22,175,000

Total bonds issued in the City's name \$ 47,957,917  
 Plus: Unamortized bond premium 1,378,589  
 Less: Unamortized bond discount (59,292)

Total \$ 49,277,214

<u>Business-type Activities-HWEA:</u>	<u>Matures</u>	<u>Rate</u>	<u>Balance</u>
Due to City of Hopkinsville, US Bank	2034	2%-4.50%	\$ 2,980,000
Due to City of Hopkinsville, US Bank	2038	1.5%-6.625%	1,700,000
Due to City of Hopkinsville, US Bank	2029	1.1%-3.25%	1,265,000
Due to City of Hopkinsville, US Bank	2026	4%	<u>12,240,000</u>
			18,185,000

Plus: Unamortized bond premium 1,266,926  
 Less: Unamortized bond discount (6,111)

Total \$ 19,445,815

<u>Business-type Activities-Stormwater:</u>	<u>Matures</u>	<u>Rate</u>	<u>Balance</u>
Due to City of Hopkinsville, US Bank	2038	2%	\$ 3,990,000
Plus: Unamortized bond premium			<u>8,364</u>

Total \$ 3,998,364

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

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

**General Obligation Bonds, continued**

Annual debt service requirements to maturity for general obligation bonds are as follows as of June 30, 2018:

Fiscal Year Ending June 30	Governmental Activities		Business-type Activities Component Units	
	Principal	Interest	Principal	Interest
2019	\$ 3,127,917	\$ 1,571,696	\$ 1,820,000	\$ 803,913
2020	3,175,000	1,484,421	1,880,000	739,693
2021	2,910,000	1,393,937	1,950,000	671,187
2022	3,005,000	1,299,500	2,020,000	599,231
2023	3,100,000	1,199,463	2,095,000	522,769
2024-2028	13,315,000	4,445,775	7,855,000	1,489,281
2029-2033	9,005,000	2,725,813	2,655,000	663,604
2034-2038	8,380,000	1,110,525	1,900,000	185,300
2039-2043	<u>1,940,000</u>	<u>161,688</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 47,957,917**</u>	<u>\$15,392,818**</u>	<u>\$ 22,175,000</u>	<u>\$ 5,674,978</u>

\*\* Governmental activities debt service requirements include component units debt service requirements since those bonds were issued by the City on behalf of the component units.

**Revenue Bonds**

During the year ended June 30, 2008, HWEA acquired the sewerage system of the City of Oak Grove; and as part of that acquisition, HWEA agreed to assume the debt relating to the City of Oak Grove sewerage system. One such obligation was a revenue bond issued in 1998, the proceeds of which were used for the expansion and upgrade of existing systems. This obligation matures in 2021 with interest rates ranging from 3.75% to 4.90%. Interest is due in semi-annual installments. Two other obligations assumed by HWEA as a result of this acquisition were two Kentucky Rural Finance revenue bonds issued in 2004 (both of which were refunded during the year ended June 30, 2015, using the proceeds from 2014C general obligation bond issued by the City on behalf of HWEA).

During the year ended June 30, 2005, the City, on behalf of HWEA, issued Series 2005A revenue bonds, the proceeds of which were used to fund the Lake Barkley Raw Water Project. This obligation was originally set to mature in 2026 with interest rates ranging from 3.375% to 4.00%. The interest was due in semi-annual installments. During the year ended June 30, 2015, these revenue bonds were advance refunded with the proceeds of the Series 2015A general obligation bonds issued by the City on behalf of HWEA.

During the year ended June 30, 2010, the City, on behalf of HWEA, issued Series 2010B revenue bonds to fund the expansion of the Moss Water Treatment Plant. This obligation matures in 2030 with interest rates ranging from 3.20% to 4.40%. Interest is due in semi-annual installments.

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

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

**Revenue Bonds, continued**

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>Balance</u>
Water Sewer Facilities-1998-\$1,650,000	2021	3.75%-4.9%	\$ 270,000
Water Sewer Facilities-2010B-\$3,588,000	2030	3.20%-4.4%	<u>2,338,000</u>
Total			<u>\$ 2,608,000</u>

Annual debt service requirements projected to maturity for revenue bonds are as follows as of June 30, 2018:

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities Component Units</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ -	\$ -	\$ 249,000	\$ 111,683
2020	-	-	261,500	101,341
2021	-	-	272,500	90,039
2022	-	-	185,000	77,929
2023	-	-	192,500	70,159
2024-2028	-	-	1,077,500	223,617
2029-2030	<u>-</u>	<u>-</u>	<u>370,000</u>	<u>21,780</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,608,000</u>	<u>\$ 696,548</u>

As of June 30, 2018, HWEA has pledged future revenues of the water and sewer system to repay \$2,608,000 in total revenue bonds. Principal and interest on these bonds are payable through 2030, solely from the water and sewer system net revenues. Annual principal and interest on these bonds are expected to require approximately 2% of such net revenues (based on principal and interest payments for the year ending June 30, 2019, as a percentage of net water and sewer system revenues for the year ended June 30, 2018, which totaled \$16,797,209). Principal and interest paid for the year ended June 30, 2018, was \$361,488. As of June 30, 2018, pledged future revenues totaled \$3,304,548 which is the amount of the remaining principal and interest payments on these bonds.

The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond Funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions, which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met.

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

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

**Revenue Leases**

During the year ended June 30, 2016, HWEA entered into an agreement with the United States Army Corps of Engineers (USACE) for the design and construction of approximately 5.6 miles of 20" ductile iron water main in order to serve the Fort Campbell Army Post with a redundant connection for domestic water supply. In order to help finance the construction project, the City, on behalf of HWEA, entered into a lease agreement with a local bank in which draws can be made from the lease as construction progresses, the aggregate of which cannot exceed \$4,838,823. The interest rate on this lease agreement is 4.00%.

This project was finalized and placed into service during the year ended June 30, 2018, and repayment of the revenue began. During the period of construction, interest accrued daily on the total advances made, but was not payable until the first day of the month that was at least thirty days after the end of the construction period. Once repayment began, a lump sum payment of \$2.5 million was made, which included accrued but unpaid interest. The remainder of the unpaid principal balance plus interest is payable in 120 equal monthly installments based on a payment schedule that was established at the end of the construction period. Repayment of the amounts associated with this lease will come from payments received from USACE. This lease matures in October 2027.

During the year ended June 30, 2016, HWEA entered into another agreement with USACE for the design and construction of approximately 7.9 miles of 8" natural gas pipeline in order to serve the Fort Campbell Army Post with a redundant connection of natural gas supply. In order to help finance this construction project, the City, on behalf of HWEA, entered into a lease agreement with a local bank in which draws can be made from the lease as construction progresses, the aggregate of which cannot exceed \$10,951,730. The interest rate on this lease agreement is 4.50%.

During the period of construction, interest will accrue daily on the total advances made, but will not be payable until the first day of the month that is at least thirty days after the end of the construction period. At that same time, a lump sum payment of \$2.4 million will be made, which will include accrued but unpaid interest. The remainder of the unpaid principal balance plus interest will be payable in 120 equal monthly installments based on a payment schedule that will be established at the end of the construction period. Repayment of amounts associated with this lease will come from payments received from USACE. This lease matures in July 2027.

The outstanding debt related to revenue leases at June 30, 2018 was:

<u>Business-type Activities-HWEA:</u>	<u>Matures</u>	<u>Rate</u>	<u>Balance</u>
Planters Bank, Water	2027	4.00%	\$ 1,529,504
Planters Bank, Gas – loan not closed yet		4.50%	<u>2,040,196</u>
	Total		<u>\$ 3,569,700</u>

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

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

**Revenue Leases, continued**

Annual debt service requirements projected to maturity for revenue leases are as follows as of June 30, 2018:

Fiscal Year Ending June 30	Governmental Activities		Business-type Activities Component Units	
	Principal	Interest	Principal	Interest
2019	\$ -	\$ -	\$ 142,102	\$ 60,426
2020	-	-	147,890	54,637
2021	-	-	153,915	48,613
2022	-	-	160,183	42,343
2023	-	-	166,710	35,815
2024-2028	-	-	2,798,900	73,078
Total	\$ -	\$ -	\$ 3,569,700	\$ 314,912

**Defeasance of Debt and Current and Advance Refunding**

As noted above, the City and HWEA have issued refunding bonds to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The proceeds from these refunding bonds have been placed in an irrevocable trust to provide for all future debt payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the City's or HWEA'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. At June 30, 2018, the amount of bonds outstanding that are considered defeased is undeterminable.

Current and advance refundings have resulted in defeasance losses that are being amortized over the life of the refunding bonds. The unamortized losses at June 30, 2018 are shown on the statement of net position as deferred refunding costs under Deferred Outflows of Resources. Amortization has been included in interest expense and was \$2,799 for the City and \$64,749 for HWEA for the year ended June 30, 2018.

**10. Capital Leases**

In July 2015, the City leased a fire truck. The truck is leased at \$111,328 per year for a term of five years at an interest rate of 2.69%. The first annual payment was due in July 2016. The lease expires in July 2020.

In September 2017, the City leased a fire truck. The truck is leased at approximately \$87,000 per year at an interest rate of 1.93%. Interest payments are paid semi-annually, and principal payments are made annually. The first annual payment was due in September 2018. This lease expires in September 2020.

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

**10. Capital Leases, continued**

In March 2018, the City leased a street sweeper. The sweeper is leased at \$56,009 per year at an interest rate of 3.28%. The first annual payment is due in March 2019. This lease expires in March 2023.

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

Equipment under capital leases	\$1,257,253
Less accumulated depreciation	<u>(415,328)</u>
<b>Total</b>	<b><u>\$ 841,925</u></b>

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

The City's future minimum lease obligations as of June 30, 2018, 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>
2019	\$ 254,403	\$ 20,713	\$ 233,690
2020	254,024	15,088	238,936
2021	253,679	8,974	244,705
2022	56,009	3,547	52,462
2023	<u>56,010</u>	<u>1,803</u>	<u>54,207</u>
<b>Total</b>	<b><u>\$ 874,125</u></b>	<b><u>\$ 50,125</u></b>	<b><u>\$ 824,000</u></b>

The following are capital leases entered into by the City on behalf of component units:

In July 2016, the City, on behalf of Solid Waste, leased two residential side loaders, two commercial front-loaders and two roll-off trucks. The vehicles were leased for interest only payments each month at an interest rate of 4.50%. A lump sum principal payment was due at the expiration date in January 2018. There was an option to purchase at any point during the agreement for the purchase price plus accrued interest. This lease was paid off in October 2017, and the related property sold in July and September 2017.

In October 2016, the City, on behalf of Solid Waste, leased three roll-off trucks. The vehicles were leased for interest only payments each month at an interest rate of 4.55%. A lump sum principal payment was due at the expiration date in April 2018. There was an option to purchase at any point during the agreement for the purchase price plus accrued interest. This lease was paid off, and the related property sold in October 2017.

In October 2016, the City, on behalf of Solid Waste, leased three knuckle-boom trucks. The vehicles were leased for interest only payments each month at an interest rate of 4.55%. A lump sum principal payment was due at the expiration date in April 2018. There was an

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

**10. Capital Leases, continued**

option to purchase at any point during the agreement for the purchase price plus accrued interest. This lease was paid off, and related property sold in September 2017.

In May 2017, the City, on behalf of Solid Waste, leased two semi-trucks. The vehicles were leased for interest only payments each month at an interest rate of 3.81%. A lump sum principal payment was due at the expiration date in November 2018. There was an option to purchase at any point during the agreement for the purchase price plus accrued interest. This lease was paid off, and related property sold in March 2018.

In August 2017, the City, on behalf of Solid Waste, leased two roll-off and two front-load trucks. The vehicles were leased for interest only payments each month at an interest rate of 4.03%. A lump sum principal payment was due at the expiration date in February 2019. There was an option to purchase at any point during the agreement for the purchase price plus accrued interest. This lease was paid off, and related property sold in June 2018.

In October 2017, the City, on behalf of Solid Waste, leased two side-load trucks. The vehicles are leased for interest only payments each month at an interest rate of 3.23%. A lump sum principal payment is due at the expiration date in April 2019. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest.

In April 2018, the City, on behalf of Solid Waste, leased three semi-trucks. The vehicles are leased for interest only payments each month at an interest rate of 3.00%. A lump sum principal payment is due at the expiration date in September 2019. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest.

The following is an analysis of the leased assets included in Solid Waste's property and equipment:

Equipment under capital leases	\$1,758,624
Less accumulated depreciation	<u>(205,779)</u>
<b>Total</b>	<b><u>\$1,552,845</u></b>

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

Solid Waste's future minimum lease obligations as of June 30, 2018, 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>
2019	\$1,474,790	\$ 60,617	\$1,414,173
2020	<u>347,723</u>	<u>3,271</u>	<u>344,452</u>
<b>Total</b>	<b><u>\$1,822,513</u></b>	<b><u>\$ 63,888</u></b>	<b><u>\$1,758,625</u></b>

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

**11. Lease of Watershed Lakes – Related Party**

Stormwater 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 Stormwater to use the watershed lakes for flood control and water storage activities. The term of this lease is for a period of twenty 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-year written notice as to its intent to terminate the lease. The lease shall be automatically extended by a twenty-year period if no notice is given within the one-year time period provided. Stormwater will pay the sum of \$1 per year to HWEA and further maintain property in the manner stated in the lease. Stormwater will provide insurance for coverage of activities on the premises. Also, Stormwater must honor existing lease agreements running with the premises.

Stormwater also leases the watershed lake known as Lake Blythe located in Christian County, Kentucky from the City of Hopkinsville. The lease is for Stormwater to use the watershed lake for flood control and water storage activities. The term of this lease is for a period of twenty 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-year written notice as to its intent to terminate the lease. The lease shall be automatically extended by a twenty-year period if no notice is given within the one-year time period provided. Stormwater will pay the sum of \$1 per year to the City and further maintain property in the manner stated in the lease. Stormwater will provide insurance for coverage of activities on the premises. Also, Stormwater must honor existing lease agreements running with the premises.

**12. Closure and Postclosure Care Costs**

State and federal laws and regulations require the City, on behalf of 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, 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, 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 the statement of net position date.

Solid Waste's estimated landfill closure and postclosure care liability at June 30, 2018, was \$6,009,316. This represents the cumulative amount reported to date based on the use of the capacity of the landfill for areas 6, 7 and 9. As of June 30, 2018, areas 6 and 7 are closed, and area 9 is the vertical expansion, which had capacity used of approximately 40% at June 30, 2018. These amounts are based on what it would cost to perform all closure and postclosure care as estimated by the consulting engineer. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.



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

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

As of June 30, 2018, the total amount of closure and postclosure costs are estimated to be \$8,750,152, leaving \$2,740,836 remaining to be recognized. The remaining life of the landfill is estimated to be 33.9 years.

The City of Hopkinsville and 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. 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. At June 30, 2018, \$246,684 was held for closure and postclosure costs and reported in restricted investments on the statement of net position. Solid Waste expects future inflation costs will be paid from these funds combined with 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.

**13. Interfund Receivables and Payables**

There were no interfund receivables or payables among the governmental funds at June 30, 2018.

**14. Commitments**

At June 30, 2018, the City had the following material construction projects underway:

<u>Project</u>	<u>Approx. Cost-to-Date</u>	<u>Estimated Cost to Complete</u>
Renovation of 8 Parks	\$ 1,300,000	\$ 200,000
Fire Dept Training Center Conversion	90,000	570,000
WINS Projects	<u>2,800,000</u>	<u>9,200,000</u>
Total	<u>\$ 4,190,000</u>	<u>\$ 9,970,000</u>

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

**14. Commitments, continued**

At June 30, 2018, HWEA had the following material construction projects underway:

<u>Project</u>	<u>Approx. Cost-to-Date</u>	<u>Estimated Cost to Complete</u>
Water Tanks Rehab Project	\$ 2,151,000	\$ 400,000
Southpark Water Tank Project	12,000	340,000
Water Main Extension – Eagle Way	13,000	2,140,000
Locust Grove to I-24 – Phase 4	182,000	3,500,000
Natural Gas Project – Phase 1	1,721,000	4,000
FTC 8" Natural Gas Project – Phase 2	2,129,000	12,000,000
Oak Grove – Phase 2 – Patton/Derby/G.H.	65,000	20,000
Hammond-Wood Phase 8	1,267,000	30,000,000
Phase 7 Priority 2 Sewer Rehab	<u>1,200,000</u>	<u>20,000</u>
 Total	 <u>\$ 8,740,000</u>	 <u>\$ 48,424,000</u>

At June 30, 2018, Solid Waste had the following material construction projects underway:

<u>Project</u>	<u>Approx. Cost-to-Date</u>	<u>Estimated Cost to Complete</u>
Reverse Osmosis Project	\$ 1,290,000	\$ 88,000
New Shop and Gas Pumps Project	<u>700,000</u>	<u>245,000</u>
 Total	 <u>\$ 1,990,000</u>	 <u>\$ 333,000</u>

At June 30, 2018, Stormwater had the following material construction projects underway:

<u>Project</u>	<u>Approx. Cost-to-Date</u>	<u>Estimated Cost to Complete</u>
Project A	\$ 120,000	\$ 4,880,000
SF Little River Watershed	<u>30,000</u>	<u>15,000</u>
 Total	 <u>\$ 150,000</u>	 <u>\$ 4,895,000</u>

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are included within the appropriate fund balances in the governmental funds and are not reported separately on the financial statements. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbrances are not recorded in the financial statements for proprietary and fiduciary fund types.

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

**14. Commitments, continued**

The following funds had purchase orders outstanding at June 30, 2018 as follows:

General Fund	\$ 326,927
WINS Construction Fund	721,233
Nonmajor governmental	<u>351,631</u>
	<u>\$ 1,399,791</u>

**15. 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, 2018, consisted of the following:

<u>Transfer to:</u>	<u>Transfer From:</u>			<u>Total</u>
	<u>General Fund</u>	<u>WINS Fund</u>	<u>Nonmajor Gov't Fund</u>	
General Fund	\$ -	\$ -	\$ -	\$ -
Tie Breaker Fund	100,000	-	-	100,000
WINS Fund	-	-	-	-
Nonmajor Gov't Fund	<u>1,651,134</u>	<u>-</u>	<u>315</u>	<u>1,651,449</u>
Total	<u>\$ 1,751,134</u>	<u>\$ -</u>	<u>\$ 315</u>	<u>\$ 1,751,449</u>

**16. 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.

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

**17. Fund Balance Classification**

The composition of the fund balance classifications at June 30, 2018 are as follows:

	<u>Major Fund</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>WINS Fund</u>		
<b>Fund balances:</b>				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted:				
Streets and sidewalks	-	-	53,378	53,378
Police incentives	-	-	23,003	23,003
Fire incentives	-	-	24,355	24,355
Urban development block grant	-	-	811,134	811,134
Cemetery trusts	-	-	776,868	776,868
Capital projects	-	<u>4,770,503</u>	<u>1,013,769</u>	<u>5,784,272</u>
	-	<u>4,770,503</u>	<u>2,702,507</u>	<u>7,473,010</u>
Committed:				
Inner city development	474,281	-	-	474,281
Law enforcement	-	-	366,840	366,840
Pension spiking	152,042	-	-	152,042
Capital projects	148,469	-	-	148,469
Capital equipment replacement reserve	<u>1,204,903</u>	-	-	<u>1,204,903</u>
	<u>1,979,695</u>	-	<u>366,840</u>	<u>2,346,535</u>
Assigned:				
Major equipment	76,707	-	-	76,707
Capital projects	107,500	721,233	234,858	1,063,591
Police services	63,280	-	-	63,280
Fire services	11,994	-	-	11,994
Public works services	39,205	-	-	39,205
Community services	28,241	-	-	28,241
Streets and sidewalks	-	-	116,773	116,773
	<u>326,927</u>	<u>721,233</u>	<u>351,631</u>	<u>1,399,791</u>
Unassigned	<u>9,789,492</u>	-	-	<u>9,789,492</u>
<b>Total fund balances</b>	<u>\$ 12,096,114</u>	<u>\$ 5,491,736</u>	<u>\$ 3,420,978</u>	<u>\$ 21,008,828</u>

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

**18. 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. Claim 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.

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, 2018, the claims liability was \$226,178 (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>
2016-2017	\$ 55,931	\$2,164,110	\$2,158,440	\$ 61,601
2017-2018	\$ 61,601	\$2,705,646	\$2,541,069	\$ 226,178

HWEA is also self-insured for employee health care coverage. 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, 2018, the claims liability was \$64,284.

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>
2016-2017	\$ 93,042	\$ 274,389	\$ 314,084	\$ 53,347
2017-2018	\$ 53,347	\$ 403,439	\$ 392,502	\$ 64,284

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

**19. 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 Stormwater Utility (Stormwater), which are not disclosed elsewhere in the notes to the statements.

HWEA provides billing and cash collection services and leachate purification services for Solid Waste. HWEA had billed customers on behalf of Solid Waste \$268,747 as of June 30, 2018; and this is included in accounts receivable in the accompanying statements of net position. For the year ended June 30, 2018, the total expense for billing and collection services was \$85,788. For the year ended June 30, 2018, the total expense for leachate purification services was \$76,046. At June 30, 2018, accounts payable for these services was \$18,652.

The City assesses a percentage of Solid Waste revenue as payment in lieu of taxes. For the year ended June 30, 2018, the total expense for payment in lieu of taxes was \$386,361. At June 30, 2018, accounts payable for these payments was \$32,690.

Stormwater has contracted services with the City for bookkeeping services to be done by the City's Finance Department for \$850 each month. For the year ended June 30, 2018, the total expense for these services was \$10,200.

Stormwater has contracted services with Community and Development Services for administration services and code enforcement for \$15,000 per month. Total expense for these services was \$180,000 for the year ended June 30, 2018.

Stormwater has contracted services with HWEA for utility billing and cash collection services. For the year ended June 30, 2018, the total expense for these services was \$78,833. At June 30, 2018, accounts payable for these services was \$6,486.

For the year ended June 30, 2018, the City paid approximately \$1,193,200 and \$1,867,105 for salaries and benefits on behalf of two joint ventures, Hopkinsville-Christian County Emergency Communications Center and Hopkinsville-Christian County Ambulance Service District, respectively. These amounts were reimbursed by the joint ventures.

**20. 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. Furthermore, management believes that any financial responsibility that may be incurred in settlement of such claims and lawsuits would not be material to the City's financial position.

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

**21. 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.

In a previous year, the City was awarded an Economic Initiative Grant from Housing and Urban Development ("HUD"), the proceeds of which were used to fund the construction of natural gas pipelines at the industrial mega site in Christian County, Kentucky. Since the project is not yet in service, the costs totaling \$3,985,399, as funded by the HUD grant, have been recorded as construction in progress on the City's statement of net position. Once the project is in service, the operation of the gas lines will be the responsibility of the City's component unit, HWEA; therefore, both the City and HWEA consider it appropriate to transfer the construction in progress costs from the City to HWEA so that HWEA can record the costs on their statement of net position. However, in order to transfer these costs, approval has to first be received from HUD, and if such approval is granted, the Hopkinsville City Council will then have to pass a municipal order to initiate the transfer, at which time HWEA's Board will have to accept the transfer. As of the date of this report, this approval process is currently underway and has not yet been finalized.

The City has been notified that it has received various grants for construction projects. These grants also require that the City match part of the proceeds.

In the next fiscal year, the City plans to issue a bond for \$945,000 to finance the cost of renovating office space in the William Chevrolet Building; the building will then be rented out. The City also plans to obtain authorization from City Council to purchase a new fire ladder truck for approximately \$1.4 million, which require a vote on an amended budget.

**22. Subsequent Events**

Subsequent to the year ended June 30, 2018, the City issued general obligation bonds of approximately \$3.5 million to complete financing of the WINS projects.

Subsequent to the year ended June 30, 2018, the City, on behalf of Solid Waste, entered into two capital lease agreements for trucks. Lease agreement #17 totals \$770,272 and is set to expire February 2020. Lease agreement #18 totals \$1,580,380 and is set to expire April 2020.

**23. Implementation of GASB Pronouncements**

**A. Accounting Pronouncements Adopted during the Fiscal Year ended June 30, 2018**

The financial statements of the City are prepared in conformity with the accounting principles generally accepted in the United States of America as applied to government units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

**23. Implementation of GASB Pronouncements, continued**

**A. Accounting Pronouncements Adopted during the Fiscal Year ended June 30, 2018, continued**

During the year ended June 30, 2018, the City adopted the following GASB pronouncements:

- *Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- *Statement No. 82: Pension Issues*
- *Statement No. 85: Omnibus 2017*
- *Statement No. 86: Certain Debt Extinguishment Issues*
- *Statement No. 89: Accounting for Interest Cost Incurred before the End of a Construction Period*

The impact of the implementation of GASB Statement Nos. 75 and 89 were discussed in Note 1X. None of the other GASB Statements listed above had an impact on financial reporting at this time.

**B. Future Implementation of GASB Pronouncements**

In addition to the pronouncements discussed above, the GASB has issued additional guidance for state and local governments that is not yet effective. The City is currently reviewing the provisions of the following pronouncements to determine the impact of implementation in future periods.

- *Statement No. 83: Certain Asset Retirement Obligations (FY 2019)*
- *Statement No. 84: Fiduciary Activities (FY 2020)*
- *Statement No. 87: Leases (FY 2021)*
- *Statement No. 88: Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements (FY 2019)*
- *Statement No. 90: Majority Equity Interests (FY 2020)*



**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Hopkinsville, Kentucky**  
**Schedule of Required Supplementary Information**  
**County Employees Retirement Systems (CERS)**  
**Schedule of City of Hopkinsville's Proportionate Share of the Net Pension Liability**  
**For the Years Ended June 30,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b><u>Nonhazardous:</u></b>				
City's proportion of the net pension liability	0.157111%	0.147963%	0.146015%	0.143192%
City's proportionate share of the net pension liability	\$ 9,196,190	\$ 7,285,140	\$ 6,277,960	\$ 4,646,000
City's covered payroll	\$ 4,022,388	\$ 3,664,551	\$ 3,410,997	\$ 3,282,128
City's proportionate share of the net pension liability as a percentage of its covered payroll	228.63%	198.80%	184.05%	141.55%
Total pension plan's fiduciary net position	\$ 6,687,237,095	\$ 6,141,394,419	\$ 6,440,799,856	\$ 6,528,146,353
Total pension plan's pension liability	\$ 12,540,544,538	\$ 11,065,012,656	\$ 10,740,325,421	\$ 9,772,522,616
Total pension plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%
<b><u>Hazardous:</u></b>				
City's proportion of the net pension liability	1.689418%	1.628784%	1.648732%	1.659682%
City's proportionate share of the net pension liability	\$ 37,796,986	\$ 27,948,983	\$ 25,309,788	\$ 19,946,000
City's covered payroll	\$ 9,489,583	\$ 8,647,767	\$ 8,431,262	\$ 8,400,784
City's proportionate share of the net pension liability as a percentage of its covered payroll	398.30%	323.19%	300.19%	237.43%
Total pension plan's fiduciary net position	\$ 2,217,996,136	\$ 2,010,174,047	\$ 2,078,201,667	\$ 2,087,002,261
Total pension plan's pension liability	\$ 4,455,274,669	\$ 3,726,115,488	\$ 3,613,307,547	\$ 3,288,825,753
Total pension plan fiduciary net position as a percentage of the total pension liability	49.78%	53.95%	57.52%	63.46%

**Note:** This schedule is intended to present a ten-year trend. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

**Note:** Please read Note 6 in the notes to the basic financial statements regarding detailed information on the City's pension plans. The County Employees Retirement System measurement date is twelve months prior to the City's financial statements; the 2018 measurement date is June 30, 2017, and the 2017 measurement date is June 30, 2016.

**City of Hopkinsville, Kentucky**  
**Schedules of Required Supplementary Information**  
**County Employees Retirement Systems (CERS)**  
**Schedule of Component Units' Proportionate Share of the Net Pension Liability**  
**For the Years Ended June 30,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>HWEA:</b>				
<b><u>Nonhazardous:</u></b>				
HWEA's proportion of the net pension liability	0.136035%	0.129211%	0.118190%	0.114295%
HWEA's proportionate share of the net pension liability	\$ 7,962,547	\$ 6,361,838	\$ 5,081,523	\$ 3,708,000
HWEA's covered payroll	\$ 3,355,136	\$ 3,131,198	\$ 2,766,612	\$ 2,621,446
HWEA's proportionate share of the net pension liability as a percentage of its covered payroll	237.32%	203.18%	183.67%	141.45%
Total pension plan's fiduciary net position	\$ 6,687,237,095	\$ 6,141,394,419	\$ 6,440,799,856	\$ 6,528,146,353
Total pension plan's pension liability	\$ 12,540,544,538	\$ 11,065,012,656	\$ 10,740,325,421	\$ 9,772,522,616
Total pension plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%
<b>Solid Waste:</b>				
<b><u>Nonhazardous:</u></b>				
Solid Waste's proportion of the net pension liability	0.088442%	0.076398%	0.073008%	0.070445%
Solid Waste's proportionate share of the net pension liability	\$ 5,176,782	\$ 3,761,528	\$ 3,138,976	\$ 2,286,000
Solid Waste's covered payroll	\$ 2,161,508	\$ 1,822,532	\$ 1,688,607	\$ 1,610,274
Solid Waste's proportionate share of the net pension liability as a percentage of its covered payroll	239.50%	206.39%	185.89%	141.96%
Total pension plan's fiduciary net position	\$ 6,687,237,095	\$ 6,141,394,419	\$ 6,440,799,856	\$ 6,528,146,353
Total pension plan's pension liability	\$ 12,540,544,538	\$ 11,065,012,656	\$ 10,740,325,421	\$ 9,772,522,616
Total pension plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%

**Note:** This schedule is intended to present a ten-year trend. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

**Note:** Please read Note 6 in the notes to the basic financial statements regarding detailed information on HWEA's and Solid Waste's pension plans. The County Employees Retirement System measurement date is twelve months prior to the HWEA's and Solid Waste's financial statements, the 2018 measurement date is June 30, 2017 and the 2017 measurement date is June 30, 2016.

**City of Hopkinsville, Kentucky**  
**Schedule of Required Supplementary Information**  
**County Employees Retirement Systems (CERS)**  
**Schedule of City of Hopkinsville's Pension Contributions**  
**For the Years Ended June 30,**

<b><u>Nonhazardous:</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Statutorily required contributions	\$ 554,999	\$ 714,562	\$ 602,161	\$ 602,723	\$ 620,548
Contributions in relation to the statutorily required contributions	<u>(554,999)</u>	<u>(714,562)</u>	<u>(602,161)</u>	<u>(602,723)</u>	<u>(620,548)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%
City's covered payroll	\$ 4,064,379	\$ 4,022,388	\$ 3,664,551	\$ 3,410,997	\$ 3,282,128
Contributions as a percentage of covered payroll	13.66%	17.76%	16.43%	17.67%	18.91%
 <b><u>Hazardous:</u></b>	 <b><u>2018</u></b>	 <b><u>2017</u></b>	 <b><u>2016</u></b>	 <b><u>2015</u></b>	 <b><u>2014</u></b>
Statutorily required contributions	\$ 2,111,018	\$ 2,880,492	\$ 2,790,174	\$ 2,892,766	\$ 3,000,986
Contributions in relation to the statutorily required contributions	<u>(2,111,018)</u>	<u>(2,880,492)</u>	<u>(2,790,174)</u>	<u>(2,892,766)</u>	<u>(3,000,986)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%
City's covered payroll	\$ 9,209,140	\$ 9,489,583	\$ 8,647,767	\$ 8,431,262	\$ 8,400,784
Contributions as a percentage of covered payroll	22.92%	30.35%	32.26%	34.31%	35.72%

**Note:** This schedule is intended to present a ten-year trend. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

**Note:** Please read Note 6 in the notes to the basic financial statements regarding detailed information on the City's pension plans.

**City of Hopkinsville, Kentucky  
Schedule of Required Supplementary Information  
County Employees Retirement Systems (CERS)  
Schedule of Component Units' Pension Contributions  
For the Years Ended June 30,**

<b>HWEA:</b>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><u>Nonhazardous:</u></b>					
HWEA's statutorily required contributions	\$ 464,785	\$ 464,029	\$ 394,384	\$ 365,433	\$ 371,486
HWEA's contributions in relation to the statutorily required contributions	<u>(464,785)</u>	<u>(464,029)</u>	<u>(394,384)</u>	<u>(365,433)</u>	<u>(371,486)</u>
HWEA's annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
HWEA's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%
HWEA's covered payroll	\$ 3,256,186	\$ 3,355,136	\$ 3,131,198	\$ 2,766,612	\$ 2,621,446
HWEA's contributions as a percentage of covered payroll	14.27%	13.83%	12.60%	13.21%	14.17%
<b>Solid Waste:</b>					
<b><u>Nonhazardous:</u></b>					
Solid Waste's statutorily required contributions	\$ 338,710	\$ 405,369	\$ 320,925	\$ 310,637	\$ 305,286
Solid Waste's contributions in relation to the statutorily required contributions	<u>(338,710)</u>	<u>(405,369)</u>	<u>(320,925)</u>	<u>(310,637)</u>	<u>(305,286)</u>
Solid Waste's annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Solid Waste's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%
Solid Waste's covered payroll	\$ 2,339,156	\$ 2,161,508	\$ 1,822,532	\$ 1,688,607	\$ 1,610,274
Solid Waste's contributions as a percentage of covered payroll	14.48%	18.75%	17.61%	18.40%	18.96%

**Note:** This schedule is intended to present a ten-year trend. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

**Note:** Please read Note 6 in the notes to the basic financial statements regarding detailed information on HWEA's and Solid Waste's pension plans.

**City of Hopkinsville, Kentucky**  
**Policemen's and Firefighter's Pension Fund**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**For the Years Ended June 30,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest cost	120,673	168,334	212,523	267,915
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	26,565	(734,902)	(748,273)	(71,532)
Changes of assumptions	154,101	(100,401)	(235,376)	1,026,854
Benefit payments	(266,054)	(315,549)	(354,942)	(399,589)
Other	-	-	-	-
Net change in total pension liability	<u>35,285</u>	<u>(982,518)</u>	<u>(1,126,068)</u>	<u>823,648</u>
Total pension liability-beginning	<u>3,396,757</u>	<u>4,379,275</u>	<u>5,505,343</u>	<u>4,681,695</u>
Total pension liability-ending	<u><u>\$ 3,432,042</u></u>	<u><u>\$ 3,396,757</u></u>	<u><u>\$ 4,379,275</u></u>	<u><u>\$ 5,505,343</u></u>
<b>Plan Fiduciary Net Position</b>				
Contributions-employer	\$ 325,000	\$ 375,000	\$ 399,744	\$ 400,000
Contributions-employee	-	-	-	-
Net investment income	10,324	11,640	13,081	31,039
Benefit payments	(266,054)	(315,549)	(354,942)	(399,589)
Administration expenses	(21,933)	(7,162)	(13,440)	(6,405)
Other	-	-	-	-
Net change in plan fiduciary net position	<u>47,337</u>	<u>63,929</u>	<u>44,443</u>	<u>25,045</u>
Plan fiduciary net position-beginning	<u>1,122,917</u>	<u>1,058,988</u>	<u>1,014,545</u>	<u>989,500</u>
Plan fiduciary net position-ending	<u><u>\$ 1,170,254</u></u>	<u><u>\$ 1,122,917</u></u>	<u><u>\$ 1,058,988</u></u>	<u><u>\$ 1,014,545</u></u>
<b>Net Pension Liability</b>	<u><u>\$ 2,261,788</u></u>	<u><u>\$ 2,273,840</u></u>	<u><u>\$ 3,320,287</u></u>	<u><u>\$ 4,490,798</u></u>
Plan fiduciary net position as a percentage of the total pension liability	34.10%	33.06%	24.18%	18.43%
Covered-employee payroll	-	-	-	-
City's net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A

**Note:** Information was not available for ten years of reporting, but will be accumulated over time as it becomes available.

**Note:** Please read Note 6 in the notes to the basic financial statements regarding detailed information on the City's pension plans.

**City of Hopkinsville, Kentucky  
Policemen's and Firefighter's Pension Fund  
Schedule of Contributions  
For the Years Ended June 30,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 497,550	\$ 731,484	\$ 989,356	\$ 851,707
Contributions in relation to the actuarially determined contribution	<u>325,000</u>	<u>375,000</u>	<u>399,744</u>	<u>400,000</u>
Contribution deficiency (excess)	<u>\$ 172,550</u>	<u>\$ 356,484</u>	<u>\$ 589,612</u>	<u>\$ 451,707</u>
Covered-employee payroll	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A

**Note:** Information was not available for ten years of reporting, but will be accumulated over time as it becomes available.

**Note:** Please read Note 6 in the notes to the basic financial statements regarding detailed information on the City's pension plans.

**City of Hopkinsville, Kentucky  
Policemen's and Firefighter's Pension Fund  
Schedule of Investment Return  
For the Years Ended June 30,**

	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	1.07%	1.33%	1.59%	3.92%

**Note:** Information was not available for ten years of reporting, but will be accumulated over time as it becomes available.

**Note:** Please read Note 6 in the notes to the basic financial statements regarding detailed information on the City's pension plans.



**City of Hopkinsville, Kentucky**  
**Schedule of Required Supplementary Information**  
**County Employees Retirement Systems (CERS)**  
**Schedule of City of Hopkinsville's Proportionate Share of the Net OPEB Liability**  
**For the Year Ended June 30,**

	<u>2018</u>
<b><u>Nonhazardous:</u></b>	
City's proportion of the net OPEB liability	0.157111%
City's proportionate share of the net OPEB liability	\$ 3,158,469
City's covered payroll	\$ 4,022,388
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	78.52%
Total plan fiduciary net position	\$ 2,212,535,662
Total OPEB liability	\$ 4,222,877,716
Total plan fiduciary net position as a percentage of the total OPEB liability	52.39%
<b><u>Hazardous:</u></b>	
City's proportion of the net OPEB liability	1.689418%
City's proportionate share of the net OPEB liability	\$ 13,965,938
City's covered payroll	\$ 9,489,583
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	147.17%
Total plan fiduciary net position	\$ 1,189,001,387
Total OPEB liability	\$ 2,015,672,964
Total plan fiduciary net position as a percentage of the total OPEB liability	58.99%

**Note:** This schedule is intended to present a ten-year trend. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

**Note:** Please read Note 7 in the notes to the basic financial statements regarding detailed information on City's OPEB plan. The County Employees Retirement System measurement date is twelve months prior to City's financial statements; the 2018 measurement date is June 30, 2017.

**City of Hopkinsville, Kentucky  
Schedules of Required Supplementary Information  
County Employees Retirement Systems (CERS)  
Schedule of Component Units' Proportionate Share of the Net OPEB Liability  
For the Years Ended June 30,**

	<u>2018</u>
<b>HWEA:</b>	
<b><u>Nonhazardous:</u></b>	
HWEA's proportion of the net OPEB liability	0.136035%
HWEA's proportionate share of the net OPEB liability	\$ 2,734,769
HWEA's covered payroll	\$ 3,355,136
HWEA's proportionate share of the net OPEB liability as a percentage of its covered payroll	81.51%
Total plan fiduciary net position	\$ 2,212,535,662
Total OPEB liability	\$ 4,222,877,716
Total plan fiduciary net position as a percentage of the total OPEB liability	52.39%

	<u>2018</u>
<b>Solid Waste:</b>	
<b><u>Nonhazardous:</u></b>	
Solid Waste's proportion of the net OPEB liability	0.088442%
Solid Waste's proportionate share of the net OPEB liability	\$ 1,777,987
Solid Waste's covered payroll	\$ 2,161,508
Solid Waste's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.26%
Total plan fiduciary net position	\$ 2,212,535,662
Total OPEB liability	\$ 4,222,877,716
Total plan fiduciary net position as a percentage of the total OPEB liability	52.39%

**Note:** This schedule is intended to present a ten-year trend. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

**Note:** Please read Note 7 in the notes to financial statements regarding detailed information on HWEA's and Solid Waste's OPEB plans. The County Employees Retirement System measurement date is twelve months prior to HWEA's and Solid Waste's financial statements; the 2018 measurement date is June 30, 2017.

**City of Hopkinsville, Kentucky  
Schedule of Required Supplementary Information  
County Employees Retirement Systems (CERS)  
Schedule of City of Hopkinsville's OPEB Contributions  
For the Year Ended June 30,**

	<u>2018</u>
<b><u>Nonhazardous:</u></b>	
Statutorily required contributions	\$ 185,000
Contributions in relation to the statutorily required contributions	<u>(185,000)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>
City's contributions as a percentage of statutorily required contribution for OPEB	100.00%
City's covered payroll	\$ 4,064,379
Contributions as a percentage of covered payroll	4.55%
 <b><u>Hazardous:</u></b>	 <u>2018</u>
Statutorily required contributions	\$ 703,673
Contributions in relation to the statutorily required contributions	<u>(703,673)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>
City's contributions as a percentage of statutorily required contribution for OPEB	100.00%
City's covered payroll	\$ 9,209,140
Contributions as a percentage of covered payroll	7.64%

**Note:** This schedule is intended to present a ten-year trend. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

**Note:** Please read Note 7 in the notes to the basic financial statements regarding detailed information on the City's OPEB plan.

**City of Hopkinsville, Kentucky  
Schedules of Required Supplementary Information  
County Employees Retirement Systems (CERS)  
Schedule of Component Units' OPEB Contributions  
For the Years Ended June 30,**

	<u>2018</u>
<b>HWEA:</b>	
<b><u>Nonhazardous:</u></b>	
HWEA's statutorily required contributions	\$ 154,929
HWEA's contributions in relation to the statutorily required contributions	<u>(154,929)</u>
HWEA's annual contribution deficiency (excess)	<u>\$ -</u>
HWEA's contributions as a percentage of statutorily required contribution for OPEB	100.00%
HWEA's covered payroll	\$ 3,256,186
HWEA's contributions as a percentage of covered payroll	4.76%
<b><u>Solid Waste:</u></b>	
<b><u>Nonhazardous:</u></b>	
Solid Waste's statutorily required contributions	\$ 109,940
Solid Waste's contributions in relation to the statutorily required contributions	<u>(109,940)</u>
Solid Waste's annual contribution deficiency (excess)	<u>\$ -</u>
Solid Waste's contributions as a percentage of statutorily required contribution for OPEB	100.00%
Solid Waste's covered payroll	\$ 2,339,156
Solid Waste's contributions as a percentage of covered payroll	4.70%

**Note:** This schedule is intended to present a ten-year trend. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

**Note:** Please read Note 7 in the notes to financial statements regarding detailed information on the City's OPEB plan.

**City of Hopkinsville, Kentucky  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 5,370,000	\$ 5,610,000	\$ 5,642,378	\$ 32,378
Licenses and permits	23,657,000	24,035,346	24,166,634	131,288
Fines and forfeits	65,000	65,000	101,206	36,206
Intergovernmental	3,275,320	3,595,320	3,599,018	3,698
Charges for services	253,600	253,600	257,891	4,291
Interest	100,000	175,000	184,356	9,356
Other revenues	798,087	866,674	876,253	9,579
<b>Total Revenues</b>	<b>33,519,007</b>	<b>34,600,940</b>	<b>34,827,736</b>	<b>226,796</b>
<b>EXPENDITURES</b>				
Current:				
General government:				
Administrative	1,701,313	1,737,713	1,735,008	2,705
Tax department	728,422	718,499	692,452	26,047
Information technology	891,769	835,614	825,516	10,098
Legislative	347,890	353,190	353,141	49
Public safety:				
Police	7,712,164	7,758,658	7,532,896	225,762
Emergency communications	1,247,612	1,247,612	1,192,511	55,101
Fire	7,934,339	7,899,308	7,516,713	382,595
Other	1,200,570	1,200,570	1,200,570	-
Public works:				
Administrative	286,170	286,170	282,204	3,966
Street	1,911,060	1,899,745	1,862,358	37,387
Service center	451,741	451,741	439,276	12,465
Other	390,000	390,000	374,342	15,658
Community development	3,833,907	4,206,472	4,031,023	175,449
Parks and recreation	1,156,967	1,210,175	1,205,146	5,029
Debt service:				
Principal	1,111,000	1,111,000	1,111,000	-
Interest and finance charges	666,493	668,956	668,914	42
Capital outlays	-	162,927	162,927	-
<b>Total Expenditures</b>	<b>31,571,417</b>	<b>32,138,350</b>	<b>31,185,997</b>	<b>952,353</b>
Excess of revenues over (under) expenditures	1,947,590	2,462,590	3,641,739	1,179,149
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	546,763	546,763	546,725	(38)
Transfers out	(2,494,353)	(3,009,353)	(3,266,076)	(256,723)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,947,590)</b>	<b>(2,462,590)</b>	<b>(2,719,351)</b>	<b>(256,761)</b>
Net change in fund balance	-	-	922,388	922,388
Fund balance, beginning of year	12,591,176	12,591,176	12,591,176	-
Fund balance, end of year	<b>\$ 12,591,176</b>	<b>\$ 12,591,176</b>	<b>\$ 13,513,564</b>	<b>\$ 922,388</b>

**CITY OF HOPKINSVILLE, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)**  
**ON BUDGETARY ACCOUNTING AND CONTROL**  
**For the Year Ended June 30, 2018**

**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.

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, 2018, of the General Fund is presented below.

Excess (deficit) of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	\$ 922,388
Adjustments:	
To adjust expenditures for salary accruals	(20,653)
To adjust expenditures for payable accruals	(14,600)
To adjust revenues for tax and license accruals	<u>(27,444)</u>
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 859,691</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, 2018**

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

	General Fund (Budgetary)	Budgetary to GAAP Adjustments *	Special Revenue Funds	Total
<b>REVENUES</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 34,827,736	\$ 34,827,736	\$ -	\$ 34,827,736
Adjustments:				
The City budgets for receivables on the cash basis, rather than on the modified accrual basis	-	(27,444)	-	(27,444)
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	-	-	\$ 49,681	49,681
Total revenues as reported on the budgetary comparison schedule	<u>34,827,736</u>	<u>+ 34,800,292</u>	<u>49,681</u>	<u>34,849,973</u> ^
<b>EXPENDITURES</b>				
Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule	(31,185,997)	(31,185,997)	-	(31,185,997)
Adjustments:				
The City budgets for payables on the cash basis, rather than on the modified accrual basis	-	(20,653)	-	(20,653)
The City budgets for payroll on the cash basis, rather than on the modified accrual basis	-	(14,600)	-	(14,600)
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	-	-	(4,890,635)	(4,890,635)
Total expenditures as reported on the budgetary comparison schedule	<u>(31,185,997)</u>	<u>+ (31,221,250)</u>	<u>(4,890,635)</u>	<u>(36,111,885)</u> ^
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	546,725	546,725	-	546,725
Transfers out	(3,266,076)	(3,266,076)	968,217	(2,297,859)
Issuance of long-term debt	-	-	2,517,984	2,517,984
Total other financing sources (uses)	<u>(2,719,351)</u>	<u>+ (2,719,351)</u>	<u>3,486,201</u>	<u>766,850</u> ^
Excess of revenues and other financing sources over/ (under) expenditures and other financing uses	<u>\$ 922,388</u>	<u>+ \$ 859,691</u>	<u>** \$ (1,354,753)</u>	<u>\$ (495,062)</u> ^
Reclassifications:				
Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting	<u>\$ (968,217)</u>	<u>\$ -</u>	<u>\$ 968,217</u>	<u>\$ -</u>

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

+ As reported on the budgetary comparison schedule

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

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

**City of Hopkinsville, Kentucky  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018**

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Pooled cash and cash equivalents	\$ 929,880	\$ 821,244	\$ -	\$ 1,751,124
Non-pooled cash and cash equivalents	297,868	211,313	73,324	582,505
Investments	230,296	-	368,114	598,410
Loans receivable	305,643	-	-	305,643
Other receivables	199,000	-	-	199,000
	<u>1,962,687</u>	<u>1,032,557</u>	<u>441,438</u>	<u>3,436,682</u>
<b>Total assets</b>	<b>\$ 1,962,687</b>	<b>\$ 1,032,557</b>	<b>\$ 441,438</b>	<b>\$ 3,436,682</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 15,704	\$ -	\$ -	\$ 15,704
	<u>15,704</u>	<u>-</u>	<u>-</u>	<u>15,704</u>
<b>Total liabilities</b>	<b>15,704</b>	<b>-</b>	<b>-</b>	<b>15,704</b>
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	-
Restricted	1,463,370	797,699	441,438	2,702,507
Committed	366,840	-	-	366,840
Assigned	116,773	234,858	-	351,631
Unassigned	-	-	-	-
	<u>1,946,983</u>	<u>1,032,557</u>	<u>441,438</u>	<u>3,420,978</u>
<b>Total fund balances</b>	<b>1,946,983</b>	<b>1,032,557</b>	<b>441,438</b>	<b>3,420,978</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,962,687</b>	<b>\$ 1,032,557</b>	<b>\$ 441,438</b>	<b>\$ 3,436,682</b>



**City of Hopkinsville, Kentucky**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Intergovernmental	\$ 1,498,443	\$ -	\$ -	\$ 1,498,443
Investment income (loss)	11,851	4,421	(6,537)	9,735
Other revenue	<u>104,893</u>	<u>16,700</u>	<u>9,050</u>	<u>130,643</u>
<b>Total revenues</b>	<u>1,615,187</u>	<u>21,121</u>	<u>2,513</u>	<u>1,638,821</u>
<b>EXPENDITURES</b>				
Current:				
General government	12,149	32,237	-	44,386
Public safety	642,359	34,288	-	676,647
Public works	161,956	5,647	-	167,603
Community development	99,437	38,991	-	138,428
Parks and recreation	-	8,945	-	8,945
Debt Service:				
Principal	75,000	100,113	-	175,113
Interest	30,494	13,505	-	43,999
Expenditures	-	9,350	-	9,350
Capital outlay	<u>949,918</u>	<u>1,792,887</u>	<u>-</u>	<u>2,742,805</u>
<b>Total expenditures</b>	<u>1,971,313</u>	<u>2,035,963</u>	<u>-</u>	<u>4,007,276</u>
Excess of revenues over (under) expenditures	<u>(356,126)</u>	<u>(2,014,842)</u>	<u>2,513</u>	<u>(2,368,455)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	200,315	1,451,134	-	1,651,449
Transfers out	(315)	-	-	(315)
Issuance of debt	<u>-</u>	<u>507,207</u>	<u>-</u>	<u>507,207</u>
<b>Total other financing sources (uses)</b>	<u>200,000</u>	<u>1,958,341</u>	<u>-</u>	<u>2,158,341</u>
<b>Net change in fund balances</b>	(156,126)	(56,501)	2,513	(210,114)
Fund balances, beginning of year	<u>2,103,109</u>	<u>1,089,058</u>	<u>438,925</u>	<u>3,631,092</u>
<b>Fund balances, end of year</b>	<u>\$ 1,946,983</u>	<u>\$ 1,032,557</u>	<u>\$ 441,438</u>	<u>\$ 3,420,978</u>

**City of Hopkinsville, Kentucky  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2018**

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Drug Enforcement	Expendable Trust	Grants	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>									
Pooled cash and cash equivalents	\$ 170,151	\$ -	\$ 23,003	\$ 24,355	\$ 505,491	\$ 174,106	\$ -	\$ 32,774	\$ 929,880
Non-pooled cash and cash equivalents	-	-	-	-	-	192,734	105,134	-	297,868
Investments	-	-	-	-	-	-	230,296	-	230,296
Loans receivable	-	-	-	-	305,643	-	-	-	305,643
Other receivables	-	-	-	-	-	-	-	199,000	199,000
<b>Total assets</b>	<b><u>\$ 170,151</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 23,003</u></b>	<b><u>\$ 24,355</u></b>	<b><u>\$ 811,134</u></b>	<b><u>\$ 366,840</u></b>	<b><u>\$ 335,430</u></b>	<b><u>\$ 231,774</u></b>	<b><u>\$ 1,962,687</u></b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,704	\$ 15,704
<b>Total liabilities</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>15,704</u></b>	<b><u>15,704</u></b>
<b>FUND BALANCES</b>									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted	53,378	-	23,003	24,355	811,134	-	335,430	216,070	1,463,370
Committed	-	-	-	-	-	366,840	-	-	366,840
Assigned	116,773	-	-	-	-	-	-	-	116,773
Unassigned	-	-	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b><u>170,151</u></b>	<b><u>-</u></b>	<b><u>23,003</u></b>	<b><u>24,355</u></b>	<b><u>811,134</u></b>	<b><u>366,840</u></b>	<b><u>335,430</u></b>	<b><u>216,070</u></b>	<b><u>1,946,983</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 170,151</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 23,003</u></b>	<b><u>\$ 24,355</u></b>	<b><u>\$ 811,134</u></b>	<b><u>\$ 366,840</u></b>	<b><u>\$ 335,430</u></b>	<b><u>\$ 231,774</u></b>	<b><u>\$ 1,962,687</u></b>

**City of Hopkinsville, Kentucky**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2018**

	Municipal Road Aid	Community Development Block Grant	Police Incentive	Fire Incentive	Urban Development Action Grant	Drug Enforcement	Expendable Trust	Grants	Total Nonmajor Special Revenue Funds
<b>REVENUES</b>									
Intergovernmental	\$ 640,982	\$ 204,506	\$ 291,135	\$ 307,407	\$ -	\$ -	\$ -	\$ 54,413	\$ 1,498,443
Investment income (loss)	5,514	-	-	-	676	2,293	3,368	-	11,851
Other revenue	-	-	-	-	-	104,893	-	-	104,893
<b>Total revenues</b>	<u>646,496</u>	<u>204,506</u>	<u>291,135</u>	<u>307,407</u>	<u>676</u>	<u>107,186</u>	<u>3,368</u>	<u>54,413</u>	<u>1,615,187</u>
<b>EXPENDITURES</b>									
General government	-	-	-	-	-	-	12,149	-	12,149
Public safety	-	-	292,801	308,876	-	11,256	-	29,426	642,359
Public works	161,261	-	-	-	-	-	695	-	161,956
Community development	-	99,012	-	-	-	-	-	425	99,437
Debt Service:									
Principal	-	75,000	-	-	-	-	-	-	75,000
Interest	-	30,494	-	-	-	-	-	-	30,494
Capital Outlay	879,145	-	-	-	-	20,314	-	50,459	949,918
<b>Total expenditures</b>	<u>1,040,406</u>	<u>204,506</u>	<u>292,801</u>	<u>308,876</u>	<u>-</u>	<u>31,570</u>	<u>12,844</u>	<u>80,310</u>	<u>1,971,313</u>
Excess of revenues over (under) expenditures	<u>(393,910)</u>	<u>-</u>	<u>(1,666)</u>	<u>(1,469)</u>	<u>676</u>	<u>75,616</u>	<u>(9,476)</u>	<u>(25,897)</u>	<u>(356,126)</u>
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	100,000	-	-	-	-	-	315	100,000	200,315
Transfer out	-	-	-	-	-	-	(315)	-	(315)
Issuance of debt	-	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>200,000</u>
<b>Net change in fund balances</b>	<u>(293,910)</u>	<u>-</u>	<u>(1,666)</u>	<u>(1,469)</u>	<u>676</u>	<u>75,616</u>	<u>(9,476)</u>	<u>74,103</u>	<u>(156,126)</u>
<b>Fund balances, beginning of year</b>	<u>464,061</u>	<u>-</u>	<u>24,669</u>	<u>25,824</u>	<u>810,458</u>	<u>291,224</u>	<u>344,906</u>	<u>141,967</u>	<u>2,103,109</u>
<b>Fund balances, end of year</b>	<u>\$ 170,151</u>	<u>\$ -</u>	<u>\$ 23,003</u>	<u>\$ 24,355</u>	<u>\$ 811,134</u>	<u>\$ 366,840</u>	<u>\$ 335,430</u>	<u>\$ 216,070</u>	<u>\$ 1,946,983</u>

**City of Hopkinsville, Kentucky  
Budgetary Comparison Schedule  
Municipal Road Aid Special Revenue Fund  
For the Year Ended June 30, 2018**

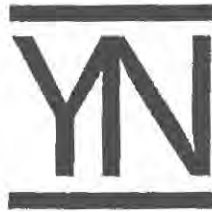
	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Intergovernmental	\$ 629,500	\$ 629,500	\$ 640,982	\$ 11,482
Interest	<u>3,000</u>	<u>3,000</u>	<u>5,514</u>	<u>2,514</u>
Total Revenues	<u>632,500</u>	<u>632,500</u>	<u>646,496</u>	<u>13,996</u>
<b>EXPENDITURES</b>				
Public works	632,500	161,500	161,261	239
Capital outlay	<u>-</u>	<u>571,000</u>	<u>879,145</u>	<u>(308,145)</u>
Total expenditures	<u>632,500</u>	<u>732,500</u>	<u>1,040,406</u>	<u>(307,906)</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>(100,000)</u>	<u>(393,910)</u>	<u>(293,910)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	100,000	100,000	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Net change in fund balance	-	-	(293,910)	(293,910)
Fund balance, beginning of year	<u>464,061</u>	<u>464,061</u>	<u>464,061</u>	<u>-</u>
Fund balance, end of year	<u>\$ 464,061</u>	<u>\$ 464,061</u>	<u>\$ 170,151</u>	<u>\$ (293,910)</u>
Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis)			\$ (293,910)	
Adjustments:				
To adjust expenditures for payable accruals			<u>-</u>	
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)			<u>\$ (293,910)</u>	

**City of Hopkinsville, Kentucky  
Combining Balance Sheet  
Nonmajor Capital Projects Funds  
June 30, 2018**

	<u>Capital Fund</u>	<u>Section 108 CDBG Loan Fund</u>	<u>City Hall/PD Construction Fund</u>	<u>Total Nonmajor Capital Projects Funds</u>
<b>ASSETS</b>				
Pooled cash and cash equivalents	\$ 821,244	\$ -	\$ -	\$ 821,244
Non-pooled cash and cash equivalents	<u>-</u>	<u>182,626</u>	<u>28,687</u>	<u>211,313</u>
Total assets	<u>\$ 821,244</u>	<u>\$ 182,626</u>	<u>\$ 28,687</u>	<u>\$ 1,032,557</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	-
Restricted	586,386	182,626	28,687	797,699
Committed	-	-	-	-
Assigned	234,858	-	-	234,858
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>821,244</u>	<u>182,626</u>	<u>28,687</u>	<u>1,032,557</u>
Total liabilities and fund balances	<u>\$ 821,244</u>	<u>\$ 182,626</u>	<u>\$ 28,687</u>	<u>\$ 1,032,557</u>

**City of Hopkinsville, Kentucky**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Capital Projects Funds**  
**For the Year Ended June 30, 2018**

	Capital Fund	Section 108 CDBG Loan Fund	City Hall/PD Construction Fund	Total Nonmajor Capital Projects Funds
<b>REVENUES</b>				
Investment income	\$ -	\$ 3,545	\$ 876	\$ 4,421
Other revenue	<u>16,700</u>	<u>-</u>	<u>-</u>	<u>16,700</u>
Total revenues	<u>16,700</u>	<u>3,545</u>	<u>876</u>	<u>21,121</u>
<b>EXPENDITURES</b>				
Current:				
General government	32,237	-	-	32,237
Public safety	34,288	-	-	34,288
Public works	5,647	-	-	5,647
Community development	37,793	1,198	-	38,991
Parks and recreation	8,945	-	-	8,945
Debt service:				
Principal	100,113	-	-	100,113
Interest	13,505	-	-	13,505
Expenditures	9,350	-	-	9,350
Capital outlay	<u>1,601,495</u>	<u>133,376</u>	<u>58,016</u>	<u>1,792,887</u>
Total expenditures	<u>1,843,373</u>	<u>134,574</u>	<u>58,016</u>	<u>2,035,963</u>
Excess of revenues over (under) expenditures	<u>(1,826,673)</u>	<u>(131,029)</u>	<u>(57,140)</u>	<u>(2,014,842)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,451,134	-	-	1,451,134
Transfers out	-	-	-	-
Issuance of debt	<u>507,207</u>	<u>-</u>	<u>-</u>	<u>507,207</u>
Total other financing sources (uses)	<u>1,958,341</u>	<u>-</u>	<u>-</u>	<u>1,958,341</u>
Net change in fund balances	131,668	(131,029)	(57,140)	(56,501)
Fund balances, beginning of year	<u>689,576</u>	<u>313,655</u>	<u>85,827</u>	<u>1,089,058</u>
Fund balances, end of year	<u>\$ 821,244</u>	<u>\$ 182,626</u>	<u>\$ 28,687</u>	<u>\$ 1,032,557</u>



YORK, NEEL & ASSOCIATES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' 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, 2018, 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 8, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the 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 the City of Hopkinsville, Kentucky's financial statements are free from 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**

The 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. This 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 & Associates, LLP*  
Hopkinsville, Kentucky  
January 8, 2019